VOUCHER HOMEOWNERSHIP STUDY

Volume I Cross-site Analysis

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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Foreword

Helping HUD-assisted renters become homeowners through the Voucher Homeownership Program (VHO) is an important part of HUD's strategy to increase homeownership. VHO offers public housing agencies (PHAs) the administrative flexibility to use tenant-based vouchers to help first-time homebuyers pay for their monthly homeownership expenses instead of using it to pay for rent. Since the first such voucher homeownership programs began in 1999, the number of public housing agencies implementing the program has grown exponentially from 12 pilot sites to over 450, and the number of homeowners has increased from less than 100 households to over 4,900 households in 2006. The VHO program is a central piece of HUD's efforts to move low-income families into homeownership. Combined with the Family Self Sufficiency and Moving to Work programs (not analyzed in this study), HUD has helped nearly 7,900 families achieve homeownership.

HUD is carefully studying the VHO program. In 2003, HUD published a study of early program implementation and effectiveness at 12 sites. Other communities looked to this study to help implement their own programs. HUD has used outcomes from the 2003 study to revise the VHO program to include community land trust programs and revised the minimum income standards for people with disabilities. The present study examines VHO program implementation nationally. The results of this study show the following program outcomes as of December 2005:

- Foreclosure and delinquency/default rates are extremely low. Of the 206 PHAs surveyed, there were only 10 foreclosures and 30 mortgages that were delinquent or in default across more than 3,400 purchases.

- Purchasers are primarily female-headed households (61 percent) with children (74 percent), minorities (58 percent), and persons with disabilities (32 percent).

- Average monthly Principal, Interest, Taxes and Insurance (PITI) burden was low. The sample of 98 case study site purchasers had an average PITI burden of 18 percent compared to 28 to 33 percent for conventional and FHA loans.

- Purchasers at the case study sites moved an average of 3.3 miles to neighborhoods with more homeowners, more single-family homes, and slightly lower poverty rates than the neighborhoods in which they were renting.

While we are pleased that this study indicates positive outcomes for the Voucher Homeownership Program, HUD will continue to monitor and examine the results to be certain that VHO expands opportunities for low-income and minority families to move toward the American Dream of homeownership.

Darlene F. Williams

Darlene F. Williams
Assistant Secretary for
Policy Development and Research

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Executive Summary

In April 1999, the U.S. Department of Housing and Urban Development (HUD) issued a proposed rule for the voucher homeownership program, authorizing public housing authorities (PHAs) to allow low-income households receiving rental vouchers to apply their vouchers toward homeownership. By September 2000, the final rule was issued and PHAs were given specific guidelines and requirements for establishing their own "voucher homeownership" (VHO) programs.[1] By early 2004, HUD estimated that 300 public housing authorities were operating voucher homeownership programs, and roughly 2,000 homes had been purchased through the program. By December of 2005, more than 450 PHAs were operating VHO programs, and more than 4,000 purchases had been reported.

Under the VHO program, a component of the broader housing choice voucher program, participants use the monthly housing assistance payment (HAP) provided by the voucher to help pay the homeownership expenses for a housing unit that they purchase, rather than the traditional application of the voucher toward rent payments. The three most common approaches to applying the housing assistance payment (HAP) toward the mortgage used to purchase the home are: to use the HAP as a direct offset to the mortgage payment; to use the HAP as payment for a second mortgage; and to count the HAP as income in determining the amount that can be borrowed.

The homeownership program has some other distinct requirements, including mandatory homeownership counseling and a time limit of 10 to 15 years of assistance (depending on the terms of the mortgage) for non-elderly, non-disabled families.[2] In addition, all homes purchased through the voucher homeownership program are required to pass two separate inspections: a Housing Quality Standards (HQS) inspection and an independent inspection.

During 2001-02, HUD sponsored an exploratory study of program implementation based on site visits to 12 selected PHAs.[3] That study afforded many insights into how the selected PHAs were implementing and operating the programs, but did not attempt to develop a comprehensive national picture. Given the rapid expansion in the program, HUD commissioned the present study to develop a broader, national view of the characteristics and outcomes of voucher homeownership programs. This report presents the results of that study. Topics covered in this report are:

- Program Planning and Design;
- Financing Homeownership;
- Characteristics of VHO Purchasers and Their Neighborhoods;
- Characteristics of Housing Markets in VHO Communities; and
- The Relationship Between Program and Market Factors and the Rate of Home Purchase.

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1 HUD sometimes refers to the program as the homeownership voucher (HVO) program.

2 Elderly and disabled households are eligible for 30 years of assistance.

3 Jennifer Turnham *et al.*, *Voucher Homeownership Program Assessment* (Volumes 1 and 2), US Department of Housing and Urban Development, July 2003.

Study Objectives and Data Sources

The primary objective of the present study was to provide a broad, statistically accurate picture of the VHO program nationwide, based on in-depth case study assessments of selected sites operating particularly active or noteworthy programs and a survey of PHAs that have reported at least one VHO purchase. The key research issues were:

- What roles are PHAs playing in implementing the program?
- What kinds of partnerships are PHAs forming to implement the program, and what are the roles of program partners?
- What targeting criteria (if any) are PHAs using to recruit prospective VHO participants?
- What funding sources are PHAs and their partners using to support program services and to assist purchasers?
- What is the format and content of the pre-purchase counseling provided to program participants? What (if any) post-purchase support is offered?
- How is the HAP used to support mortgages? What other sources of financing help purchasers?
- What factors seem to contribute to higher rates of program purchases, including PHA characteristics, program components, and housing market characteristics?

The 10 VHO programs selected for site visits were chosen based on their record in helping voucher recipients purchase homes and for their diversity in location and program design. Although not intended to be a representative sample of VHO programs nationwide, these interviews provided insight into the workings of programs that have achieved success in moving voucher program participants to homeownership in a diverse range of settings. The site visits also allowed us to explore program issues in greater depth and provide context for the information collected in the survey (described below.) The following 10 sites were visited:

Bernalillo County Housing Department, Bernalillo County, New Mexico
CHAC Inc., Chicago, Illinois
Housing Authority of Fulton County, Fulton County, Georgia
Indianapolis Housing Authority, Indianapolis, Indiana
Lorain Metropolitan Housing Authority, Lorain County, Ohio
Housing Authority of the City of Los Angeles, Los Angeles, California
Montgomery County Housing Authority, Montgomery County, Pennsylvania
New Hampshire Housing Finance Agency, State of New Hampshire
Pinellas County Housing Authority, Pinellas County, Florida
Waco Housing Authority, Waco, Texas

The second data source was a survey of program administrators at 206 PHAs that were operating VHO programs and had at least one purchase at the time of the survey. Surveys were conducted primarily by telephone and included the following topics:

- eligibility requirements, targeting strategies, and outreach methods;
- program staffing;
- types of partner organizations and nature of agreements with partners;
- format and content of pre-purchase counseling and (if offered) post-purchase assistance;
- treatment of the voucher assistance in qualifying participants for mortgages;
- other funding sources used to help VHO participants;
- counts of how many participants have enrolled, completed pre-purchase counseling, and purchased a home; and
- incidence of mortgage delinquencies or defaults.

Supplementary data sources were used for analyses of housing market characteristics, purchaser incomes and characteristics, neighborhood features, and purchase transactions. These sources included the 2000 Census, the 2004 American Community Survey, HUD's Resident Characteristics Reports and Public and Indian Housing Information Center (PIC) system, and purchase transaction data collected at the 10 case study sites for a random sample of purchases.

Findings on Program Planning and Design

Through regulation, HUD establishes basic program guidelines, but provides PHAs with broad discretion in deciding what role the PHA will play in the program, whom to target for homeownership, and what functions (if any) partner organizations will assume. Findings on how programs across the country are addressing targeting and outreach, homeownership counseling, home search and inspections, and post-purchase activities were drawn from the national survey of voucher homeownership program administrators and from the site visits conducted to 10 case study sites.

- ***PHAs implement VHO programs because homeownership fits with the agency's mission and may enhance existing programs.*** Most of the PHA staff we interviewed in our site visits elected to implement a VHO program because voucher homeownership offered a logical add-on to their FSS programs or other asset-building initiatives. Other reasons to implement the program included existing or newly established relationships with counseling organizations, lenders, and other partners; the affordability of the local housing market; and the potential for homeownership to enhance the PHA's image in the broader community.
- ***PHAs are generally "casting a broad net" in recruiting prospective homebuyers.*** Fewer than 20 percent of VHO administrators said their programs had income or employment criteria beyond HUD's minimum requirements. Of those programs with additional targeting, Family Self-Sufficiency (FSS) participants were the most commonly targeted group: 29 percent of programs require FSS, and 33 percent gave preferential access to FSS participants.

- ***The level of interest in homeownership has met or exceeded most VHO administrators' expectations.*** However, a number of survey respondents noted that high home prices and problematic credit histories dampened some potential applicants' enthusiasm for the program.
- ***Most PHAs (85 percent) have engaged program partners to provide pre-purchase counseling to program participants.*** However, PHAs using partners still devoted considerable staff time to assisting VHO participants before, during, and after they bought a home.
- ***Pre-purchase counseling covered the topics suggested in HUD's Final Rule and was typically provided using a combination of group instruction and individual sessions.*** Few programs developed and provided counseling exclusively for VHO program participants. More often, VHO program participants received at least some of their pre-purchase counseling in groups with other first-time homebuyers. Program administrators generally said their pre-purchase counseling curriculum was effective, although they considered the material to be complex and difficult to convey in the amount of time allocated for counseling.
- ***PHA staff sometimes provided program participants with lists of real estate agents, but otherwise generally did not help program participants with the home search process.*** In the case study sites (where we were able to discuss the home search process in more detail than in the survey), program staff in both high- and low-cost communities reported that finding an affordable home in a good neighborhood was a challenge. Continued increases in home prices could make this more difficult over time.
- ***Once participants find a home, the HQS and independent home inspections do not generally derail the purchase.*** It was not uncommon for homes to fail the first HQS inspection, but the problems usually were minor and easily remedied by the seller. We heard of only a few cases where problems identified by an independent inspection caused a purchase to fall through.
- ***The majority of VHO administrators we interviewed said they offered some post-purchase support to VHO purchasers.*** Post-purchase assistance was less well-developed than the pre-purchase counseling component. Even in the roughly one-half of VHO programs that required post-purchase counseling, administrators acknowledged that only about two-thirds of purchasers participated. Focus group participants in several of the case study sites that offered post-purchase activities confirmed that they were not aware of or had not participated in these activities. In addition, staff in at least one of the case study sites said they had not yet developed policies and procedures for preparing purchasers for the time when their voucher assistance would end. The staff suggested this is an area for additional HUD guidance.

Findings on Financing Homeownership

Some 3,400 homebuyers have purchased homes through the 206 voucher homeownership programs whose staff were interviewed for our survey. We examined the circumstances of the financing for those who have purchased, both at the PHA level for the programs surveyed and at the individual level for a random sample of 98 purchases taken from our 10 case study sites. Key findings include:

- ***VHO purchasers in most programs have access to additional funding sources to help them buy homes.*** Downpayment assistance grants were available to at least some purchasers at the vast majority of surveyed programs (84 percent). Three-quarters of surveyed programs had purchasers who used FSS program escrow accounts to help finance their purchases. Below-market or forgivable second mortgages were available at almost half of surveyed programs (47 percent), as were Individual Development Accounts (IDAs) or other matched savings programs (46 percent). Grants or below-market loans for rehabilitation costs were available to purchasers at a quarter of surveyed programs.

- ***Most VHO programs work with a limited number of lenders, according to survey respondents.*** VHO administrators reported working with 4.4 lenders, on average. Sixty-nine (69) percent of surveyed programs worked with between one and five lenders. About a fifth of programs (18 percent) worked with between six and 10 lenders.

- ***Mechanisms to monitor mortgage payments were limited.*** Some 40 percent of programs rely on the lender to report any late payments to the PHA. Seventeen (17) percent of programs rely solely on the VHO purchaser to notify the PHA if they have a payment problem.

- ***Foreclosures have been very rare, according to survey respondents.*** Only 4 percent of PHA respondents (8 agencies) said there had been any foreclosures among their VHO purchasers. In total, these 8 agencies reported 10 foreclosures across the approximately 3,400 purchases reported by all survey respondents; no single agency reported more than two foreclosures. Delinquencies were more common than foreclosures, but still fairly infrequent. About 12 percent of respondents (25 agencies) reported at least one delinquency, but none reported more than two.

- ***Analysis of a random sample of 98 purchases from the 10 case study sites found the average Purchase Loan to Value (LTV) to be 99.7 percent.*** In spite of these high LTVs, there was a strong perception among program participants who participated in our focus groups that they are building assets for the future and will be able to pass those assets on to their children. Even program participants with an LTV of 100 percent at the time of purchase will have built some equity by the end of the term of the voucher assistance, especially with a low-interest mortgage and if the property appreciates in value.

- ***For the 486 purchasers from the 10 case study sites with records in HUD's Public and Indian Housing Information Center (PIC) administrative data system, the Principal, Interest, Taxes and Insurance (PITI) Burden—defined as the ratio of the purchaser's share of the monthly PITI payment (not including the HAP) to the purchaser's gross monthly income—averaged 18 percent.***[4] This average was lower than one might have expected, given that limits on PITI burdens are generally in the range of 28 to 33 percent for conventional and FHA loans. However, several of the case study sites were using the HAP as income model, which typically results in lower PITI burdens. In addition, PHAs

[4] We obtained PIC data for the universe of 486 purchasers in the 10 case study sites. The PIC data contain sufficient data on household income and share of the monthly PITI payment to calculate payment burdens for this larger sample, but the PIC data do not contain more detailed data on the purchase transaction, such as the purchase price, sources and amounts of financing assistance, and mortgage terms. We collected this more detailed transaction data for the 98 purchases in the case study sites.

factored in other housing costs (utilities and maintenance and replacement reserves) in addition to the PITI when calculating the amount of the HAP and evaluating the maximum loan the purchaser could afford.

- ***The Total Housing Cost Burden—defined as the ratio of the purchaser's monthly contribution to total housing costs (PITI, condo fees, allowances for utilities, maintenance, and repairs/replacements, etc.) to the purchaser's gross monthly income—averaged 38 percent for the 486 purchasers in the case study sites (according to PIC data).*** Across all purchasers at the case study sites, 29 percent had total housing cost burdens below 30 percent of their gross monthly income. The majority of purchasers (56 percent of all purchasers at the sample sites) have total housing cost burdens between 30 and 49 percent of gross monthly income. However, 14 percent of all program purchasers across the sample sites had total housing cost burdens at or above 50 percent of their gross monthly income. Purchasers with high housing cost burdens may find it difficult to pay for maintenance and replacement needs as they arise. Indeed, for very low-income families, even modest payment burdens of 30 percent or more may leave little disposable income to meet such unexpected costs.

Findings on Characteristics of VHO Purchasers and Their Neighborhoods

To examine purchaser characteristics in the case study sites in greater detail, we obtained client-level data from HUD's PIC system for the case study sites. These data give insight into who was purchasing homes through the VHO program and the kinds of neighborhoods and housing markets in which they were purchasing.

- ***VHO purchasers were primarily female heads of household with children, most of whom (69 percent) were members of minority groups.***
- ***According to PIC data, the 10 case study programs were serving a substantial proportion of people with disabilities (about one-third of purchasers overall).*** This is not surprising given the number of voucher holders with disabilities and the assistance of organizations that specialize in homeownership support for this population.[5]
- ***Most purchasers moved to a different neighborhood from where they had rented; on average, purchasers moved 3.3 miles away.*** They generally moved to neighborhoods with more homeowners and more single-family homes than their pre-purchase neighborhoods. Poverty rates were slightly lower in post-purchase neighborhoods, but most purchasers (69 percent) lived in low-poverty neighborhoods both before and after they purchased.

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5 According to HUD's PIC data, 36 percent of households in the tenant-based voucher program are disabled (18 percent are non-elderly persons with disabilities and no children, 9 percent are elderly disabled with no children, 8 percent are non-elderly and disabled with children, and 1 percent are elderly and disabled with children.)

Findings on the Relationship Between Program and Market Factors and the Rate of Home Purchase

One of the goals of this study was to assess the extent to which programmatic and housing market factors were associated with larger numbers of home purchases through voucher homeownership programs. The analysis of these factors was intended to shed light on the situations in which housing vouchers are most likely to be able to support homeownership.

The total volume of purchases achieved by local VHO programs may be a function of a number of factors. In order to learn whether housing market characteristics seemed to influence VHO programs' ability to achieve more purchases, we examined PHA and market data for a subset of 45 programs that both were represented in our survey of VHO programs and had jurisdictions populous enough to be included in 2004 American Community Survey (ACS) data. We compared programs with larger volumes of purchases (14 programs with more than 40 purchases) with programs with smaller volumes of purchases (31 programs with 40 or fewer purchases).[6] Findings from this portion of the analysis include:

- ***Voucher programs with more than 40 purchases were at PHAs with much larger voucher programs***, likely reflecting both the greater organizational capacity and the larger number of qualified program participants at larger PHAs.
- ***Both median house values and household incomes were slightly lower in the jurisdictions served by programs with larger volumes of purchases,*** reflecting the lower-income jurisdictions within metropolitan areas in which the programs with more than 40 purchases were located.
- ***There was no real difference between the two groups when affordability was measured using the ratio of house values to local incomes and to voucher purchaser incomes.*** However, when using the ratio of annualized FMRs to house values, programs with more than 40 purchases appeared somewhat *less* affordable. This unexpected finding may be explained by the fact that voucher homebuyers typically used other subsidies together with the voucher in order to afford purchases and that state and local governments provide larger subsidy amounts in markets with higher home prices relative to incomes.

The same data sources were then used to examine the relationship between program and market features and the home purchase rates experienced by a subsample of 44 voucher homeownership programs represented in the survey.[7] The home purchase rate was defined as the number of home purchases, adjusted for the number of years the program had been in operation and for the total number of vouchers managed by each PHA. A set of variables related to program and market

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6 This examination of market characteristics did not include any VHO programs that had not yet reported one purchase or PHAs that were not currently offering a VHO program. While it was outside the scope of the current study, including such programs and PHAs in a comparison of market characteristics would be informative, providing information on whether certain market characteristics were associated with programs that had not yet achieved their first purchase and with PHAs that had decided not to operate VHO programs.

7 One of the 45 programs used in the earlier analysis had to be dropped because of missing data, leaving a sample of 44.

characteristics were defined in an attempt to capture factors that might be related to the home purchase rate, including:

- The PHA level of effort in promoting the use of vouchers for homeownership;
- The intensity and quality of counseling services provided;
- Program eligibility and enrollment preferences;
- The characteristics of voucher holders, including their financial circumstances and their motivation to buy a home;
- Housing market conditions; and
- Financing models used and the availability of additional subsidies.

The association between the home purchase rate and program and market characteristics was evaluated in several ways. First, a correlation coefficient between the home purchase rate and each of the variables related to program and market characteristics was estimated. The 44 programs were also divided into quartiles based on their annual rate of home purchase in the voucher homeownership program. The correlations were tested on the complete sample of 206 PHAs that responded to the survey, although market data were not available for all the agencies in the larger sample. In addition, the assessment of the complete sample focused on the annual number of home purchases rather than the purchase rate per voucher managed, because the number of vouchers managed at each PHA was not available for the larger sample.[8] Finally, the program and market features that appear to be most associated with higher home purchase rates in the sample of 44 PHAs were used in an ordinary least squares regression model to examine the relationship between each of these variables and purchase rates, after simultaneously controlling for other potentially important factors.

This analysis was severely limited by both the small sample size of PHAs for which programmatic and housing market variables were available and the imprecise nature of the variables. However, the patterns found provide some indication of the factors that may be important for program success in supporting homebuying activity.

- ***The strongest predictor of the home purchase rate was the share of all the PHA's voucher holders that complete homeownership counseling.*** This result is consistent with the idea that greater effort by PHAs to extend homeownership services to voucher holders increases the home purchase rate. However, it is also likely that more voucher holders will complete counseling in situations where homeownership is more likely to be attainable. The results cannot distinguish between these interpretations of the observed relationship.
- ***Another factor that was found to have a fairly strong association with the home purchase rate realized by a PHA was whether the PHA imposed any additional restrictions on program participants beyond those required by HUD in terms of income and employment, or had other requirements related to credit, savings, or debt levels.*** Programs that had more stringent requirements were found to have lower home purchase

[8] We did not collect information in the survey on the total number of vouchers managed by each agency. We assembled this information for the smaller sample of 44 PHAs, but not for the full survey sample.

rates in the sample of 44 PHAs that were the focus of the most detailed analysis. However, this association was not evident in the larger sample of 206 PHAs.

- ***The analysis found only a weak and statistically insignificant association between the home purchase rate and house price levels.*** It had been expected that the level of home prices would exert a strong influence on the home purchase rate, with low-income households finding it difficult to achieve homeownership in high-cost markets even with the subsidies offered by a housing voucher. However, this association was not evident among the sample of 44 PHAs and could not be tested in the larger sample as market data were only available for the smaller sample.
- ***The analysis found only limited support for the importance of additional subsidies in determining home purchase rates.*** It would be expected that the availability of additional subsidies beyond the housing voucher, such as downpayment assistance grants, below market interest-rate mortgages, or matched savings programs, would also help to increase the home purchase rate for voucher homeownership programs. While we collected information on the availability of these types of assistance, we were not able to collect detailed information on the amounts. The analysis of the sample of 44 PHAs found little correlation between the ability of purchasers to take advantage of programs of these types and the home purchase rate, although analysis of the larger sample of 206 PHAs found a statistically significant association.

In general, the fairly low explanatory power of the estimated regression model and the limited number of statistically significant relationships found indicates that the data available for this analysis did not adequately capture the factors that are most important in influencing the rate of home purchase of voucher homeownership programs. Future evaluations of the voucher homeownership program could extend this analysis by obtaining better measures of the program and market factors, particularly house prices, for a broader cross section of PHAs. It would be particularly helpful to have better measures of the quality of program services, the characteristics of voucher holders, and the types and amounts of financial assistance available to program participants.

Summary and Implications of the Study Findings

Some of the study's key findings and the implications for the VHO program going forward are summarized below.

- ***The number of VHO programs is growing, but most programs still have small numbers of purchases.*** About 60 percent of our survey respondents reported 5 closings or fewer, and the median total number of vouchers PHA respondents expected to allocate to homeownership was only 18. It is thus likely that vouchers used for VHO purchases will always be a small percentage of the total vouchers allocated. However, even at this small scale, PHAs viewed the homeownership option as a logical add-on for their Family Self Sufficiency Programs and a valuable tool for asset-building for families. Staff in some agencies said offering homeownership enhances the PHA's image in the broader community as well.
- ***Most agencies are "casting a wide net" by recruiting prospective VHO participants without imposing additional program requirements.*** Fewer than 20 percent of VHO

administrators surveyed said their programs had either income or employment criteria beyond HUD's minimum requirements. Such additional screening criteria may be associated with lower rates of purchases. If so, PHAs need to assess the trade-off between a lower risk of delinquencies or defaults and a larger number of purchases.

- ***Interest in the program is as great or greater than most program administrators expected it would be, but high housing prices are seen as a significant barrier to moving renters to homeownership.*** Among the case study sites, program staff and focus group participants commonly commented that it was difficult for VHO participants to find homes they could afford in neighborhoods where they wanted to live. This was true even in some of the lower-cost housing markets, such as Indianapolis. We found some evidence that programs with additional sources of financing assistance to make purchases more affordable have greater success in achieving purchases, although our measures were somewhat imprecise. Helping VHO program administrators identify existing sources of assistance for low-income homebuyers may help more renters move to homeownership.
- ***Defaults and delinquencies have been rare, perhaps in part because of the prevalence of the "HAP as income" model for financing VHO purchases.*** Some 60 percent of survey respondents said the HAP as income model is used most frequently in their VHO programs. This model yields less purchasing power, but also results in lower payment burdens for the homebuyer. While it is still early to assess loan performance over time, this conservative approach to using the HAP may help buyers avoid payment problems. This is an area for future monitoring and research.
- ***Purchasers are moving to different neighborhoods to buy homes, but the post-purchase neighborhoods do not differ markedly from the neighborhoods where they were previously renting.*** The majority of purchasers in a sample of transactions we analyzed were living in low-poverty neighborhoods both before and after they bought homes. Nevertheless, purchasers in at least two of the case study sites said that another benefit of owning was escaping the stigma they had experienced as voucher program renters.
- ***The purchasers who participated in focus groups for this study confirmed that the home purchase process was challenging, but they were, on balance, satisfied with the support they received from PHAs and their partners and were happy with their homes and neighborhoods.*** Purchasers found the challenges were worth the benefits of homeownership – building the family's assets and feeling the accomplishment of owning one's own home. In the words of one program purchaser who participated in a focus group,

  > *It was not that easy. It was not a breeze at all. I had a disability to deal with and I had to try and attend to everything else. But I did not give up…This [homeownership] is a blessing, more than anything I could have been given. It is beyond measure for me personally…It makes living a little bit easier.*

Chapter One
Background and Overview of the Study

In 1992, Section 8(y) of the United States Housing Act of 1937 authorized eligible families to use tenant-based assistance in homes purchased and owned by family members. With passage of the Quality Housing and Work Responsibility Act of 1998, low-income families were permitted to use Housing Choice Vouchers to help finance the purchase of a home under approved plans developed by local public housing agencies (PHAs). The first such voucher homeownership (VHO) programs began in 1999 as pilot sites under a Proposed Rule issued by the Department of Housing and Urban Development (HUD).[9] Since that time, a Final Rule was issued in September 2000 (codified at 24 CFR 952.625 through 982.642) setting forth a framework of specific program requirements and defining areas in which PHAs are allowed to tailor their programs to meet local needs.

During 2001-02, HUD sponsored an exploratory study of program implementation based on site visits to 12 PHAs.[10] That study afforded many insights into how the selected PHAs were implementing and operating the programs, but did not attempt to develop a comprehensive national picture. By early 2004, an estimated 300 PHAs were operating VHO programs, and roughly 2,000 homes had been purchased with VHO program assistance. Given the rapid expansion in the program, HUD commissioned the present study to develop a broader, national view of the characteristics and outcomes of voucher homeownership programs. This report presents the results of that study. The remainder of this chapter introduces the report, providing background on the voucher homeownership program, the goals of the study, the data collection methodology, and the structure of the report.

1.1 Background on the Voucher Homeownership Program

The voucher homeownership program is authorized by Section 8(y) of the Housing Act of 1937, as amended by Section 555 of the Quality Housing and Work Responsibility Act of 1998. PHAs have the choice of whether or not to offer homeownership as part of their housing voucher programs.

A series of proposed and final rules issued by HUD established the parameters for local voucher homeownership programs.[11] The voucher homeownership regulations established guidelines and specific mandatory requirements for only a limited set of areas of program operation. The regulations establish minimum income and employment requirements, mandatory pre-purchase counseling, and term limits on the provision of homeownership assistance. Beyond these required elements, PHAs have broad flexibility to tailor their programs to local circumstances.

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9 HUD sometimes refers to the program as the Homeownership Voucher (HVO) program. We use the term Voucher Homeownership (VHO) program because it was used more commonly at the time the study was conducted.

10 Jennifer Turnham et al, *"Voucher Homeownership Program Assessment (Volumes 1 and 2),"* US Department of Housing and Urban Development, July 2003.

11 See: 64 Fed. Reg. 23,488 (April 30, 1999); 65 Fed. Reg. 55,134 (September 12, 2000); 67 Fed. Reg. 64,484 (October 18, 2002); and 67 Fed. Reg. 65,864 (October 28, 2002).

1.2 Study Objectives

The primary objective of the present study was to provide a broad, statistically accurate picture of the VHO program nationwide, based on a survey of PHAs that have reported at least one VHO purchase. The survey was supplemented by in-depth case study assessments of selected sites operating particularly active or noteworthy programs. The key research issues were:

- What roles are PHAs playing in implementing the program?
- What kinds of partnerships are PHAs forming to implement the program, and what are the roles of program partners?
- What targeting criteria (if any) are PHAs using to recruit prospective VHO participants?
- What funding sources are PHAs and their partners using to support program services and to assist purchasers?
- What is the format and content of the pre-purchase counseling provided to program participants? What (if any) post-purchase support is offered?
- How is the voucher assistance used to support mortgages? What other sources of financing help purchasers?
- What factors seem to contribute to program success, including PHA characteristics, program components, and housing market characteristics?

1.3 Overview of the Data Collection

The study used two primary data collection approaches, as well as some supplemental data. First, 10 sites were selected for in-depth site visits. Second, a sample of PHAs that had reported at least one VHO purchase to HUD was selected for a structured telephone survey. Supplemental data were assembled from the Census and from HUD's Public and Indian Housing Information Center (PIC) system. Each of the data collection components is described briefly below.

Site Visit Data Collection

The purpose of the site visits was to collect in-depth information on a small number of PHAs that had been particularly successful in assisting families to purchase homes through the voucher homeownership program. The information collected has been used to describe the implementation experience in each community and to assess the organizational characteristics of the PHA and their partners that seem to contribute to program success.

HUD's Request for Qualifications (RFQ) for the study suggested that the sites selected for intensive study should include some sites that were included in HUD's 2003 study of the program, as well as some that had not been previously studied. Based on the RFQ and HUD input at the project orientation meeting, the following guidelines were used for the site selection:

- **Number of home purchases completed to date**. We selected study sites that have had success in helping voucher recipients become homeowners and did not select sites where there have been few purchases or where implementation has been problematic.

- **Limited attention to sites associated with NeighborWorks America's (NWA's) voucher homeownership initiative.** In 2001 and 2003, NeighborWorks America (NWA, formerly Neighborhood Reinvestment Corporation) provided capital and operating grants to about 21 NWA affiliates and their 39 PHA partners to support voucher homeownership programs.[12] These sites had access to technical assistance, as well as funds that were not provided to all PHAs as part of HUD's voucher homeownership program. In addition, the 39 PHAs participating in NWA's initiative were already being studied under an NWA-sponsored research contract.
- **Diversity in location and program design.** Other factors considered in site selection included program design, geographic location, housing market characteristics, and PHA and program characteristics. The goal was to select 10 sites that captured a range of approaches to the program's main features, including targeting and recruiting participants, providing pre-purchase counseling, and assisting purchasers with financing.

Notwithstanding these attempts to capture a range of program types, PHA characteristics, and local market conditions, the 10 case study sites are not intended to be representative of any broader pool of voucher homeownership programs, housing markets, or PHAs. Instead, the sites were chosen to reflect examples of programs that have achieved success in moving voucher program participants to homeownership in a diverse range of settings.

To identify potential sites to include in the study, we drew on information from an on-line survey conducted by HUD's Office of Public and Indian Housing (PIH) in 2004. We also obtained recommendations for candidate sites from PIH staff who are familiar with local programs. Finally, we considered which of the 39 PHAs involved in NWA's study of voucher homeownership might be good candidates for the HUD study, knowing that only one or two NWA sites would be selected for further study.

We identified 31 potential sites and, in the fall of 2004, conducted brief telephone interviews to collect additional information on each program and determine PHA staff willingness to participate in the study. One PHA had discontinued the program. Of the 30 remaining PHAs, 10 were part of NWA's voucher homeownership initiative and 8 had participated in the 2003 HUD study.

Based on the reconnaissance calls and in consultation with HUD, the list was narrowed to the following 10 sites:

Bernalillo County Housing Department, Bernalillo County, New Mexico
CHAC Inc., Chicago, Illinois
Housing Authority of Fulton County, Fulton County, Georgia
Indianapolis Housing Authority, Indianapolis, Indiana
Lorain Metropolitan Housing Authority, Lorain County, Ohio

[12] NWA's affiliates are generally community-based organizations that offer pre-purchase counseling assistance for first-time homebuyers in addition to other programs and services. Under NWA's voucher homeownership initiative, 21 NWA affiliates partnered with a total of 39 PHAs to promote VHO programs. The NWA affiliate provided the pre-purchase counseling and (in most cases) funding to help make mortgages affordable while the PHA partner provided the voucher assistance.

Housing Authority of the City of Los Angeles, Los Angeles, California
Montgomery County Housing Authority, Montgomery County, Pennsylvania
New Hampshire Housing Finance Agency, State of New Hampshire
Pinellas County Housing Authority, Pinellas County, Florida
Waco Housing Authority, Waco, Texas

Among the selected sites, two were included in the 2003 HUD study (Montgomery County and Bernalillo County) and one was part of NWA's voucher homeownership initiative (CHAC in Chicago.)

Project staff conducted the site visits between May and September 2005. On-site activities included:

- interviews with PHA and partner organization staff to discuss program features and implementation successes and challenges;
- focus groups with program purchasers to learn more about purchasers' experiences with the program;
- file reviews of random samples of 10 program purchasers at each site to collect information on financing details; and
- neighborhood tours to view a selection of purchaser homes and neighborhoods.

Survey Data Collection

The second data collection method involved a survey of a stratified random sample of 230 PHAs that have implemented the VHO program and reported at least one purchase to PIC. The survey was intended to capture descriptive information on a sufficiently large number of PHAs to reflect the nature and outcomes of the program nationwide. The survey instrument appears in Appendix A. To limit respondent burden and yield responses that could be more readily tabulated and efficiently analyzed, the survey questions were largely closed-ended, although a limited number of open-ended questions were included. Topics covered in the survey included:

- eligibility requirements, targeting strategies, and outreach methods;
- program staffing;
- types of partner organizations and nature of agreements with partners;
- format and content of pre-purchase counseling and (if offered) post-purchase assistance;
- treatment of the HAP in qualifying participants for mortgages;
- other funding sources used to help VHO participants;
- counts of how many participants have enrolled, completed pre-purchase counseling, and purchased a home; and
- incidence of mortgage delinquencies or defaults.

The RFQ envisioned collecting information on the universe of programs that had reported purchases, estimated at 266 agencies in 2004. Given the resources available for the survey, the data collection plan approved by HUD set a target sample size of 230 agencies and a target completion rate of 80 percent. By the time the survey sample was selected in September 2005, the sampling frame of PHAs that had reported at least one purchase to HUD's PIC system had grown to 436. However, as shown in Exhibit 1-1, nearly two-thirds of these programs (61 percent) had reported no more than five purchases. To ensure the sample provided adequate representation of programs with larger numbers of purchases, we stratified the sample into two groups: PHAs with five purchases or fewer and those with six purchases or more. We then selected random samples of 115 programs from each of the two groups for a total sample of 230.

The surveys were conducted between September and November 2005. A total of 206 surveys were completed, for a completion rate of 90 percent. The survey was designed to be administered by telephone, but a mail version was sent to respondents when requested. In all, 180 surveys (87 percent) were completed using the telephone version of the survey, and the remaining 26 respondents (13 percent) used the mail version.

Although it was not possible to survey the entire universe of programs with the resources available for the study, the survey data represents roughly 45 percent of operational programs with at least one reported purchase. The survey sample included at least one program in every state, as well as the District of Columbia and Puerto Rico.

Because of the intentional over-sampling of programs with larger numbers of purchases, the survey sample of 206 programs has a larger proportion of programs with more purchases compared to the universe of programs with at least one purchase. The comparison of the distribution of numbers of purchases in the universe of VHO programs and the survey sample is shown in Exhibit 1-1 below.

Exhibit 1-1. Comparison of All Programs with Survey Sample

Number of Purchases	N	All Programs (Percent of Programs)	N	Survey Sample (Percent of Programs)
1 to 5	268	61	70	34
6 to 10	74	17	75	22
11 to 25	63	14	47	23
26 to 50	19	4	26	13
51 to 75	9	2	11	5
76 to 100	1	<1	4	2
101 and higher	2	<1	2	1
TOTALS	**436**	**98%**	**205[a]**	**100%**

[a] One respondent did not know how many purchases had occurred at the time of the survey.

The universe of programs that had reported at least one purchase in PIC had an average of 8.5 purchases, compared with an average of 16.8 purchases among the survey sample, again reflecting the over-sampling of programs with larger numbers of purchases. Aside from a smaller proportion of programs with one to five purchases among the survey sample, the general distribution of purchases among surveyed programs and the universe of programs is similar.

Other Data Sources

The project team used two additional sources of data to support the study:

Census Data: The project team assembled data from the 2000 Decennial Census and the 2004 American Community Survey (an annual data collection effort also conducted by the Bureau of the Census) to provide additional information on the demographic and housing market characteristics of the communities served by the case study PHAs and of a subsample of communities served by PHAs that participated in the survey. The research team also used Census data to analyze neighborhood characteristics for a sample of VHO program purchases in the case study sites. (See Chapters Four and Five.)

Household-level and Aggregate PIC Data on Voucher Program Participants: The research team assembled aggregate PIH Information Center (PIC) data on the demographic characteristics of all voucher program participants in the case study sites and in a subsample of 45 of the programs surveyed. HUD provided household-level PIC data for all purchasers in the case study sites. The household-level data on purchasers' incomes supported assessments of housing affordability. The project team obtained aggregate data on all voucher program participants from HUD's website.[13] These data were used to support analyses of purchaser characteristics compared to voucher program participants overall. (See Chapters Three and Four.)

1.4 Organization of the Report

The remainder of this report details the study's findings. The report consists of two main volumes. Volume One presents a broad, national view of the characteristics and outcomes of voucher homeownership programs across the country, drawing on the survey, site visits, and supplemental data sources. Within Volume One, Chapter Two reviews program planning and design. Chapter Three presents the approaches to, and outcomes of, financing homeownership through the VHO program, and Chapter Four reviews the characteristics of program purchasers and the neighborhoods where they have bought homes. Chapter Five details the study's findings on an exploratory assessment of the characteristics of housing markets within which a sample of VHO programs operate and analyzes the relationships among program and market features that may contribute to program success in moving VHO participants from renting to homeownership. Finally, Chapter Six provides a summary and reviews the implications of the findings. The survey instrument is attached in Appendix A.

Volume Two of the report contains the site-level case studies prepared for each of the 10 VHO programs visited for the study.

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[13] HUD provides PHA-level "Resident Characteristics Reports" on the agency's website. The reports are derived from the HUD Form 50058 data that PHAs report to HUD. Users can select from a number of reports, including aggregate reports for VHO purchasers and for voucher-holders overall. The reports are publicly available at http://pic.hud.gov/pic/RCRPublic/rcrmain.asp.

Chapter Two
Program Planning and Design

The number of PHAs offering a voucher homeownership option has grown substantially over the past few years, even though implementation is not mandatory and PHAs do not receive any additional vouchers to dedicate to homeownership. Further, until recently there were no additional funds for program administration.[14] Nevertheless, the number of agencies that have reported at least one successful VHO purchase has grown from an estimated 266 in early 2004 to an estimated 469 in late 2005. This represents about one-fifth of all agencies that administer rental voucher programs.[15]

HUD prescribes little about how the VHO program should operate, leaving PHAs with broad discretion in deciding what role the PHA will play in the program, whom to target for homeownership, and what functions (if any) partner organizations will assume. The 2003 HUD study of voucher homeownership found a variety of organizational structures and programmatic approaches among the 12 programs selected for that research. The current study provided an opportunity to collect information on a larger number of VHO programs, permitting a broader view of VHO program implementation nationwide.

This chapter presents the study's findings on program planning and design. We begin with a discussion of program planning and startup issues based on the experiences reported by staff in the case study sites. We then review findings on program implementation, including how programs across the country are addressing participant targeting and outreach, homeownership counseling, home search and inspections, and post-purchase activities. (The home purchase financing aspect of program design will be discussed separately in Chapter Four.) Information on the staff effort allocated to operate the program and barriers to program implementation are also presented in this chapter. The information on program implementation comes from the national survey of voucher homeownership program administrators as well as from the site visits conducted to 10 case study sites. Further detail on the program designs of the 10 case study sites can be found in Volume Two of this report.

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[14] In 2005, HUD issued a notice indicating that a special set-aside of administrative funds would be available to support voucher homeownership program implementation and closings. PHAs could be eligible for a one-time fee of $5,000 for initial PHA implementation of a VHO program and could receive $1,000 per voucher homeownership closing during calendar year 2005. See Notice PIH 2005-14 (HA), Calendar Year 2005 Administrative Fee Funding for Homeownership Voucher Program Implementation and Closings, Issued April 22, 2005.

[15] The 2004 estimate was developed by HUD based on the sum of the number of agencies that had reported at least one purchase to HUD's PIC system and PHA respondents to a HUD survey who indicated their agency had at least one purchase (whether reported in PIC or not). The 2005 estimate is based on a spreadsheet on HUD's website that presents the number of purchases by PHA reported to HUD's PIC system as of mid-December 2005.

A schematic of how the voucher homeownership program components fit together and some of the key choices that PHAs and their partners have to make in implementing each component is shown in Exhibit 2-1.

Exhibit 2-1. Program Components and Key Decisions

Targeting and Outreach

- Who should be served?
- How should applicants be recruited?
- Who is responsible for outreach, recruitment, and eligibility screening?

Homeownership Counseling

- Who will provide the counseling and how will it be funded?
- Which applicants can attend counseling and when?
- How much counseling will be required and in what format?
- How will issues such as credit repair be addressed?

Home Search and Inspections

- What assistance will be provided to homeownership candidates during the home search process?
- How will the two inspections (HQS and Independent) be managed?

Home Purchase Financing

- Which financing model(s) will work in the local market?
- Which financing model(s) will lenders accept?
- What subsidies will be available to finance the purchase in addition to the voucher housing assistance payment?
- How will the loans be serviced?

Post-Purchase Activities

- Will post-purchase counseling be required?
- Will the PHA conduct post-purchase HQS inspections?
- What kind of tracking should be done of participants after they purchase?

2.1 Why Offer Voucher Homeownership?

Program staff in the 10 case study sites cited several reasons why they were attracted to the voucher homeownership option. Staff at most sites said they simply viewed homeownership as a good thing for the families and communities they serve. The VHO program's role as a tool for asset-building was cited specifically by staff in Los Angeles, Bernalillo County, and Montgomery County. Montgomery County staff hoped the program would benefit both the agency's clients and the agency itself. They expected the VHO program would help voucher program participants with steady incomes and good credit to build equity and establish roots in their communities. In addition, agency management anticipated there would be more public support for the homeownership program than for the rental program, which has faced considerable community opposition in some parts of the county over the past decade.

Staff in several programs, including Chicago, Lorain, Los Angeles, Pinellas County, and Waco, viewed voucher homeownership as a valuable addition to their agencies' Family Self Sufficiency (FSS) programs. According to local respondents, many FSS participants have homeownership as one of their FSS goals, so voucher homeownership would help FSS participants attain their goal.[16]

Staff in New Hampshire and Waco explained that the VHO program would supplement or replace programs the agencies already administered. At the New Hampshire Housing Finance Authority, voucher homeownership complemented other below-market homeownership programs the agency had offered since as early as 1981. Staff in Waco said that the voucher homeownership option arrived just as the PHA's HOPE 3 program was ending.[17] The VHO program offered the agency a new way to continue promoting homeownership.

Staff in Chicago, Lorain, and Waco mentioned the affordability of their local housing markets as a factor that encouraged them to offer the VHO program. They thought there were homes in adequate condition, in neighborhoods that would be attractive to voucher program purchasers, and at prices that would be affordable given voucher payment standards and other available forms of assistance, although these assessments seemed to be based more on respondents' general perceptions rather than on any empirical analysis they had done of data on their local housing markets.

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[16] Family self-sufficiency (FSS) is a HUD program that encourages communities to develop local strategies to help assisted families obtain employment that will lead to economic independence and self-sufficiency. Public housing agencies (PHAs) work with welfare agencies, schools, businesses, and other local partners to develop a comprehensive program that gives participating FSS family members the skills and experience to enable them to obtain employment that pays a living wage. Participating households execute a 5-year FSS contract that specifies the rights and responsibilities of the PHA and the family. Households contribute increases in their earned incomes to interest-bearing FSS escrow accounts that may be used for certain purposes during participation in FSS, such as buying a home, and are paid to the head of household upon completion of the program.

[17] HUD's HOPE for Homeownership for Single Family Homes Program (HOPE 3) was launched in 1992 to aid nonprofit and public agencies in acquiring, rehabilitating, and reselling single-family homes to low-income families.

Program staff from two of the case study sites said that PHA staff and other community leaders considered the voucher homeownership program to be a vehicle – implicitly or explicitly – for neighborhood change. In Lorain, OH, program staff said that business and government officials and community residents initially supported the program in part because they thought purchasers would buy homes in lower-income neighborhoods, potentially bringing stability and economic activity. In Indianapolis, the voucher homeownership program was more explicitly considered an important strategy for responding to a court decree calling on the City of Indianapolis to pursue alternative efforts to increase suburban integration, as busing begun in the 1970s was being phased out. The VHO program was seen as a promising vehicle not only to move people to better neighborhoods, but also to provide the stability needed for a long-term integration process. (The outcomes of these strategies are discussed in Chapter Four.)

2.2 Program Size Targets

Another important element in program development is deciding how many vouchers will be allocated to homeownership. The target may be a fixed number of vouchers, an annual target, or a percentage of the agency's total voucher allocation. In part, the decision was driven by agency staff's assessment of how many vouchers *should* be allocated to homeownership rather than to voucher program renters. In addition, agency staff considered how many program purchasers could be trained and supported given available staffing. It was also influenced by perceptions about the housing market: how many purchasers would be able to afford homeownership, given house prices, voucher program payment standards, and other sources of financing support?[18]

The case study sites were selected for this research in part because they had achieved relatively high numbers of purchases compared to other PHAs that have implemented the VHO program. Exhibit 2-2 shows the total voucher allocations and the VHO program size targets selected by the case study sites.[19] It also shows how many purchases had been achieved at the time of our site visits in summer 2005. As shown in the exhibit, some of the sites with small HCV programs set fairly ambitious targets for the number of purchases they planned to achieve in their VHO programs. Bernalillo County and Fulton County both set targets of 10 percent of their total HCV allocations, and New Hampshire set a target of 5 percent. The agencies with the largest total HCV allocations among the sites we visited set modest targets relative to the size of their voucher programs overall. The two agencies with the largest HCV programs – Chicago and Los Angeles – set very modest goals of 50 and 10 purchases per year. In both cases, the VHO annual goals represent less than 1 percent of the

[18] Staff in at least one site also mentioned the budget implications of offering a VHO program, noting that the Housing Assistance Payment (HAP) for homeowners includes the maximum allowable utility allowance and an allowance for home maintenance, resulting in higher subsidies than would be likely if the same family used the voucher in the rental program.

[19] We have limited our discussion of program size targets to the case study sites because our data are more complete for these programs. We did ask survey respondents about program size targets, but a substantial number said they did not have a target. In addition, we did not collect information on the total size of the voucher program in the programs selected for the survey, so we cannot gauge the target size of the VHO program relative to the agency's voucher program overall.

agency's total voucher allocation.[20] Even with the modest allocation of vouchers to homeownership, however, Chicago still has the highest absolute number of closings of any agency in the country (as of December 2005).

Exhibit 2-2. Target Number of Vouchers to be Allocated to Homeownership in Case Study Sites

Site	Total HCV Allocation	Target Number of Vouchers to be Allocated to Homeownership	Actual Number of VHO Purchases (as of summer 2005)
Bernalillo County (NM)	2,000	10% of HCV allocation (200)	100
Chicago (IL)	36,000	< 1% of HCV allocation annually (50 per year)	101
Fulton County (GA)	1,600	10% of HCV allocation (160)	17
Indianapolis (IN)	6,700	1.5% of HCV allocation (100)	51
Lorain (OH)	2,800	No target	36
Los Angeles (CA)	44,360	<1% of HCV allocation annually (10 per year)	28
Montgomery County (PA)	2,700	<1% of HCV allocation annually 10 per year	35
New Hampshire	3,200	5% of HCV allocation (160)	81
Pinellas County (FL)	2,700	<1% of HCV allocation annually (12 per year)	19
Waco (TX)	1,800	2% of HCV allocation (20 more purchases over the next 4-5 years)	18

2.3 Targeting and Outreach

Another important decision housing authority staff face when beginning a voucher homeownership program is who will be eligible or targeted for the program. Although there are minimum requirements set by HUD for the voucher homeownership program, PHAs have the ability to tailor their programs to certain populations, either through additional eligibility requirements or through preferential access given to certain applicants. The outreach methods PHAs use can also determine

20 Staff at both agencies said they had established these annual goals but did not have an overall total goal, so we cannot say what proportion of the agencies' overall voucher allocation might be used for homeownership.

the number and types of applicants who hear of the program. In some cases, programs have intentionally limited outreach activities because limited staff resources would be unable to handle a larger number of program participants.

Eligibility and Targeting

HUD requires that non-elderly, non-disabled families meet the following minimum requirements:

- First-time homebuyer;
- Full-time employment for at least one year; and
- An annual income equal to employment at the Federal minimum wage multiplied by 2,000 hours (currently $10,300).

For disabled families, the qualified annual income of adult family members must not be less than the monthly Federal Supplemental Security Income (SSI) benefit for an individual living alone (currently $6,768).

PHAs may impose further income or employment requirements beyond HUD's minimum requirements, although relatively few of our survey respondents said they imposed stricter standards than HUD requires. Just 18 percent of PHAs surveyed reported having additional income requirements, and 11 percent said they have additional employment requirements. (Detailed information on what these requirements are was not collected in the survey.)

While income and employment standards did not typically exceed HUD's requirements, a substantial number of VHO programs had additional criteria. Nearly half (47 percent) reported other eligibility requirements, such as being a current HCV renter or having rented with a voucher for at least one year. Eligibility criteria reported by the survey respondents are summarized in Exhibit 2-3.

Exhibit 2-3. Frequency of Eligibility Requirements Beyond HUD Minimum

Requirement	N	Percent
FSS enrollment	59	29
Current HCV renter / HCV renter for one year	52	25
Income requirement above HUD minimum	37	18
Employment requirement above HUD minimum	22	11
No outstanding debt owed to PHA or others	13	6
Minimum savings	9	4
Good credit / minimum credit score	8	4
Total Programs with Eligibility Requirements Beyond HUD Minimum	**97**	**47**

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Multiple responses allowed.

As shown in the exhibit, participation in the Family Self-Sufficiency (FSS) program was a fairly common criterion that PHAs added to the HUD minimum requirements. The partnership between the FSS program and voucher homeownership often seems a logical one to PHA staff. FSS offers education, job training, and goal setting for self-sufficiency, all of which are important to voucher participants who must meet monthly mortgage payments. Furthermore, the escrowed savings through FSS can provide a valuable source of funds for downpayment and closing costs. Some 87 percent of the housing authorities surveyed also had an FSS program. Of these, one-third said they require enrollment in FSS to be in the voucher homeownership program.

Even among programs that require FSS, the specific requirements can vary, as shown in examples from the programs we visited. The Indianapolis Housing Authority allowed participants to enter FSS and the voucher homeownership program simultaneously. Other programs required that participants be enrolled in FSS for some period of time before enrolling in the voucher homeownership program. The Housing Authority of the City of Los Angeles initially required only enrollment in FSS. Los Angeles VHO program staff said they were considering revising their policy to require a minimum period of participation in FSS before the family is eligible for homeownership. The period of participation had not been decided at the time of the site visit in summer 2005, but program staff said the goal of the change was to allow families an opportunity to build savings in an FSS escrow account that could be applied to a home purchase.

Some agencies have intentionally bypassed or eliminated the FSS requirement altogether, because staff were concerned that such a requirement would divert FSS services away from those who need it most. In Chicago, CHAC no longer requires that VHO program participants enroll in FSS. Staff explained that the result of requiring FSS had been that voucher homeownership participants who already had strong educational backgrounds, steady employment, and relatively high incomes were taking FSS slots away from those who would benefit from FSS services. CHAC staff do, however, reserve the right to require FSS enrollment for voucher homeownership participants who need the kinds of supports offered by FSS.

A number of survey respondents cited other criteria for participation that, broadly speaking, served as indicators of financial responsibility. Examples included being a current HCV renter or having rented with a voucher for at least one year (25 percent), having no outstanding debt to the PHA (6 percent), and having a minimum credit score (4 percent). Examples of additional requirements from the case study sites included the following:

- CHAC and Lorain Metropolitan Housing Authority both require that participants have at least $2,500 in savings that could be applied toward downpayment or closing costs.
- CHAC and Pinellas County require that participants have active checking and savings accounts.
- New Hampshire requires that participants have an established credit history and a bank account that has been active for at least six months.
- Los Angeles and Fulton County require that participants have at least a one-year rental history with the PHA. In Fulton County, the tenant may be a voucher program participant or a resident of one of the agency's two HOPE VI developments.

- Fulton County requires that voucher homeownership participants have completed any bankruptcy proceedings at least one year before entering the VHO program.

While setting eligibility criteria is one way to target VHO programs, establishing preferential access for certain types of applicants is another. The types of applicants for whom PHAs offered preferential access and the percentages of PHAs that cited each group are shown in Exhibit 2-4. Some 46 percent of survey respondents indicated they offered preferential access to at least one group.

Exhibit 2-4. Frequency of Preferential Access to Certain Populations

Type of Applicant	N	Percent
FSS participants	69	33
Households qualifying as disabled	35	17
Elderly persons	27	13
Households that have pre-qualified for a mortgage	16	8
Families with children	8	4
Households in good standing with PHA	7	3
Public housing residents	5	2
Welfare to Work program participants	5	2
Other	4	2
Total Programs with Some Form of Preferential Access	**94**	**46**

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Multiple responses allowed.

As shown in the exhibit, those enrolled in FSS, those qualifying as disabled, and elderly persons were the most common groups granted preferential access.

The majority of PHAs targeted the VHO program to existing voucher program participants. At some PHAs, however, applicants who were on the Housing Choice Voucher program waiting list were eligible for the voucher homeownership program. Among survey respondents, 24 percent allowed waiting list applicants to apply for the homeownership program.

Outreach and Program Demand

After deciding who will be eligible for, or targeted by, the voucher homeownership program, PHA staff must determine how they will recruit prospective program participants. A variety of outreach methods were cited by survey respondents, ranging from more passive strategies such as flyers and brochures to more active ones such as personal outreach through case managers (either FSS case managers or other case managers associated with the HCV program). The most common methods used for outreach are shown in Exhibit 2-5. (Respondents were allowed to list multiple methods.)

Exhibit 2-5. Frequency of Outreach Methods Used

Outreach Method	N	Percent
Personal outreach through case managers	183	89
Flyers or brochures	182	88
Letters to current HCV holders	181	88
Information sessions	163	79
Networking with other organizations	26	13
Letters to households on HCV waiting list	24	12
Newsletters	12	6
Briefings for new HCV program participants	10	5
Annual HCV recertifications	10	5
Other targeted mailings	10	5

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Multiple responses allowed.

Most programs used flyers or brochures, letters to current HCV program participants, personal outreach through case managers, and information sessions to spread the word about the voucher homeownership program. Program staff in several of the sites we visited (Fulton County, Bernalillo County, Los Angeles, and New Hampshire) mentioned that word of mouth by current participants was also a powerful outreach tool.

PHA staff reported that interest in the voucher homeownership program has been higher than expected. The majority of survey respondents said the actual level of interest in the voucher homeownership program has either met or exceeded the PHA's original expectations, as shown in Exhibit 2-6.

Exhibit 2-6. Actual Level of Demand Compared with Original Expectations

Actual Level of Demand	N	Percent
Met expectations	87	42
Exceeded expectations	61	30
Fell short of expectations	55	27
Do Not Know	3	1

Source: Survey of VHO programs (N=206). October – November 2005.

Respondents who said interest in their programs had been either more or less than they expected were asked what the reasons might be for the higher or lower levels of interest. In programs with higher than expected demand, VHO program administrators often said they simply had underestimated the interest in homeownership among their voucher program participants. Other reasons were the promotion of the program by word of mouth and the availability of additional assistance (such as downpayment grants) to help finance purchases. Some comments from program administrators who responded to the survey included:[21]

– *We thought we would have a small, aggressive group of applicants, but it turns out that families are more savvy about home buying and more interested and committed to following through with the program requirements than expected.*

– *Demand is high. Everyone wants to own a home*.

Some respondents cautioned, however, that while interest was higher than expected in these programs, this did not always translate into high numbers of purchases. A number of program administrators commented that many of the prospective participants who were initially interested in the program subsequently lost interest when they learned more about what they needed to do to buy a home. Some comments from survey respondents included:

– *Although many families are interested in the program, the lack of income, initiative, and good credit have been serious issues.*

– *We expected people to wait longer to enroll (that is, to come in at higher incomes), but we're finding that people at any [income] level are expressing interest and aren't necessarily in a good position when they come in.*

– *Many families complete stages of the program, but don't finish the whole thing – they don't purchase a home.*

In programs with lower than expected demand, program administrators most frequently said that credit problems among potential participants deterred interest. High house prices and low incomes were also mentioned as factors that reduced demand for the VHO program. Some comments from respondents included:

– *We thought we would have more [participants] by now, but because the housing market is so expensive, people are just not striving because it just seems so unreachable.*

– *People are attracted to the program until they find out what's involved and the work it will take to get them ready to purchase. Plus the price of homes puts it out of their reach.*

– *It has been difficult to make people aware of the program's benefits. Many are nervous about becoming homebuyers and have trouble understanding the process. Low credit readiness is also an issue.*

[21] Unless otherwise noted, quotations appearing in italics are from survey respondents, who were assured their identities would be kept confidential and are therefore quoted anonymously.

2.4 Homeownership Counseling

All voucher homeownership programs must provide pre-purchase homeownership counseling to households who plan to purchase a home through the VHO program, but the details of delivering counseling are up to the PHA. HUD's Final Rule offers suggestions for topics to be covered, but does not establish any curriculum requirements. In addition, PHAs may either offer the pre-purchase counseling in-house or partner with another organization to provide some or all of the counseling. Finally, the counseling may be designed specifically for VHO program participants, or VHO program participants may enroll in pre-purchase counseling offered to any first-time homebuyer.

Partnerships

Some PHAs have staff with sufficient experience with homeownership to develop and deliver a comprehensive pre-purchase counseling curriculum. One advantage of developing an in-house program is that the content can be tailored to HCV program participants, particularly when discussing financing options available when purchasing with a voucher. For many agencies, however, PHA staff do not have experience with homeownership and may not have the time to invest in researching and creating a homebuyer education curriculum. Given the widespread availability of first-time homebuyer training programs, more often than not another organization in the PHA's area is offering pre-purchase counseling that meets most of the needs of VHO participants. These organizations can be valuable partners in preparing VHO participants for homeownership.

The vast majority of program coordinators surveyed (85 percent) said their PHA partners with one or more outside organizations for at least some of the pre-purchase counseling provided to VHO program participants. About half of the respondents said partner organizations provided all of the counseling, as shown in Exhibit 2-7. Roughly 34 percent of respondents said they offered counseling both through partners and in-house. The PHA may use partners for some counseling topics (perhaps those that are generic to all first-time homebuyers, such as household budgeting or understanding a credit report) or for particular participants (such as persons with disabilities). Only 15 percent of survey respondents conducted all of the counseling in-house.

Exhibit 2-7. Pre-Purchase Counseling Done through Partner Organization

Counseling Arrangement	N	Percent
Done only by partners	105	51
Done both by partners and PHA	70	34
Done only by PHA	30	15
Do not know counseling arrangement	1	1

Source: Survey of VHO programs (N=206). October – November 2005.

The types of agencies that acted as partners included housing counseling agencies, community development corporations or other affordable housing organizations, and credit counseling agencies. Exhibit 2-8 shows the distribution of partner organization types cited by survey respondents. (Respondents could cite more than one organization type if they had multiple partners.)

Exhibit 2-8. Types of Agencies Partnering with PHAs

Type of Organization	N	Percent
Housing counseling agency	112	54
Community development corporation / affordable housing organization	77	37
Credit counseling agency	56	27
Organizations serving persons with disabilities	16	8
Financial Institutions	14	7
Other	17	8
Total Number of Programs with At Least One Counseling Partner	**175**	**85**

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Multiple responses allowed. Percentages based on the 175 respondents that said they have at least one partner.

PHAs may have multiple counseling partners for a variety of reasons. A few of the sites we visited (Bernalillo County, Chicago, and Los Angeles) partnered with organizations that served specific populations, such as Spanish-speaking participants and people with disabilities. Participants may also choose a counseling organization based on specific needs; for example, those needing intensive credit repair may receive their counseling from an agency that specializes in credit counseling. Another reason for having multiple counseling partners is so that participants have a choice among counseling providers. In Chicago, for example, CHAC's voucher homeownership participants had a choice among several counseling agencies. The clients often chose a counseling organization that was convenient to where they lived or worked, which is important in a large metropolitan area like Chicago.

Larger programs were not more likely to have counseling partners than smaller programs. Some 73 percent of programs with more than 10 participants said they had at least one partner, and 80 percent of programs with 10 or fewer participants had at least one partner. On average, larger programs did tend to have more partners, as shown in Exhibit 2-9. However, this may be because a few of the PHAs with large programs had very large numbers of counseling partners, which increased the average for this group; with the exception of the smallest group of programs, all others had a median of two counseling partners.

Statewide organizations tended to have more counseling partners than local PHAs, given the larger geographic area served. Twelve (12) of our survey respondents operated statewide programs. The averages, medians, and ranges of the number of counseling partners for statewide and local agencies are shown in Exhibit 2-10.

Exhibit 2-9. Average Number of Counseling Partners, by Number of Participants

Number of Active Participants	N	Range of Number of Counseling Partners	Average Number of Counseling Partners	Median Number of Counseling Partners
0-10	64	1 to 5	1.8	1
11-25	36	1 to 77	4.7	2
26-50	26	1 to 15	2.6	2
51-100	24	1 to 17	3.4	2
101+	23	1 to 65	6.4	2

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Averages based on 173 respondents who said they partner with outside organizations for counseling and provided the number of partners they work with. Programs who cited having zero active participants at the time of the survey are included in the first category. These programs did not have participants who were receiving counseling or actively looking for a home at the time of the survey, but still had VHO programs.

Exhibit 2-10. Average Number of Counseling Partners, State and Local Agencies

Agency Type	N	Average Number of Counseling Partners	Median Number of Counseling Partners	Range of Number of Counseling Partners
Statewide	12	18	7	3 to 77
Local	161	2	2	1 to 15
Total Number of Programs with Partner Organizations	**173**	**3**	**2**	**1 to 77**

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Averages based on 173 respondents who said they partner with outside organizations for counseling and provided the number of partners they work with.

Funding for Pre-Purchase Counseling

HUD does not provide dedicated funding to cover the cost of pre-purchase counseling for VHO program participants. All survey respondents were asked about their funding sources for pre-purchase counseling. Respondents were asked to report only the sources of the PHA's own funds, not sources that a counseling partner or other entity used to support counseling for VHO program participants. These PHA sources could be used to support the costs of PHA staff who provided counseling, fees paid to partners, or both. About one-half of the respondents said that no PHA funds were used to support counseling, implying that the costs were entirely covered by partner organizations or other sources. Among the other half of respondents who reported using at least one source of PHA funds to cover counseling costs, the most common source was HCV program administrative funds (53 percent), followed by HUD Housing Counseling grants (37 percent). State agencies, however, were more likely to use Community Development Block Grants (92 percent) and HUD Housing Counseling Grants (54 percent). The sources of funding for counseling and the percent of survey respondents using each source are shown by agency type in Exhibit 2-11. The percentages shown are based on the number of respondents who cited at least one PHA funding source, and multiple responses were permitted.

Exhibit 2-11. Sources of PHA-Controlled Funding for Homeownership Counseling

	Statewide Agency		Local PHA		Total	
Funding Source	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**
HCV Program Administrative Funds	4	31	50	26	54	53
HUD Housing Counseling Grant	7	54	31	16	38	37
Community Development Block Grants	12	92	13	7	13	13
FSS Coordinator Funds	1	8	7	4	8	8
Other	0	0	11	6	11	11
Total Number of Agencies	**9**	**100**	**93**	**100**	**102**	**100**

Source: Survey of VHO programs (N=206). October – November 2005.

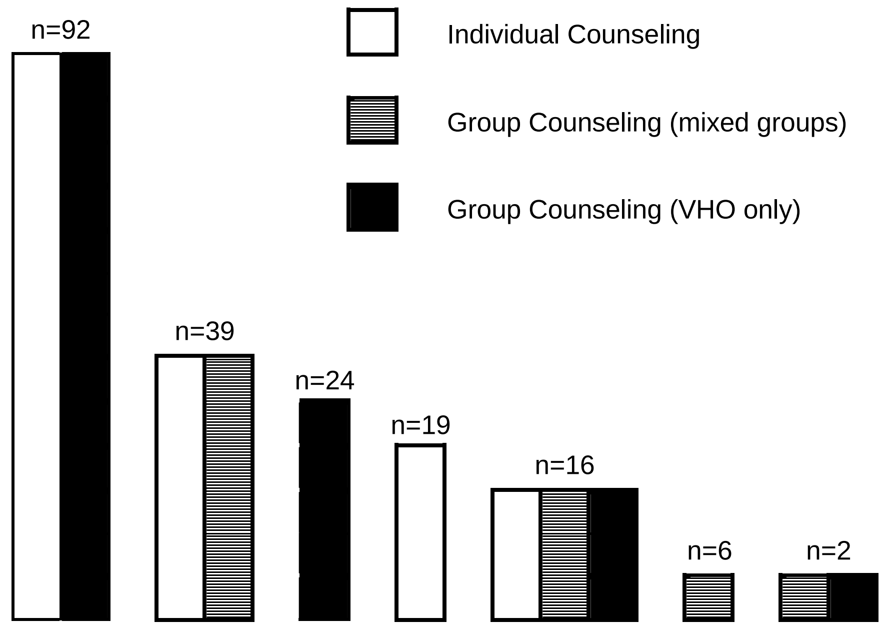
Notes: Multiple responses allowed. 102 respondents (nine of which were state agencies) cited at least one funding source. Does not include HUD funds that may go directly to a partner organization.

PHAs and their counseling partners are not allowed to charge voucher homeownership participants a fee for counseling. Counseling partners may charge the PHAs, but in most cases PHAs did not pay fees to their partner agencies for providing counseling. Almost a third (32 percent) of respondents did not provide any PHA funds to their partners to provide pre-purchase counseling, even though they relied entirely on partner organizations for this counseling. This finding seems to indicate that many communities had sufficient resources to provide pre-purchase counseling to VHO program participants at virtually no cost to the PHA, although we did not cover the issue of funding sources in sufficient detail in the survey to determine how this occurs.

Counseling Formats and Topics

Counseling can take place in a variety of formats, including group sessions, one-on-one counseling with case managers, or some combination of the two. Program administrators were asked how they conducted counseling and, if group counseling was involved, whether the sessions were limited to households participating in the VHO program or were open to other participants as well. Most programs offered at least some individual counseling. When group sessions were held, they were more likely to include a mix of participants rather than being exclusively for VHO program participants. The matrix in Exhibit 2-12 shows the combinations of counseling session formats, and the numbers that use each combination.

Exhibit 2-12. Combinations of Homeownership Counseling Formats Used



n = number of programs with displayed counseling options

Roughly 73 percent of the survey respondents reported using some combination of counseling formats. The most common combination was counseling sessions that were not limited to VHO program participants plus individual counseling; 45 percent of respondents said they used both of these formats.[22]

The Indianapolis Housing Authority (IHA) offers an example from the case study sites of how a program might use a combination of counseling formats. The Indianapolis Neighborhood Housing Program (INHP) partners with IHA for homeownership counseling, and voucher homeownership participants referred to them by IHA take the following steps:

1) Participants first receive a credit review by INHP staff. Participants who are expected to need more than two years of credit repair before they would be ready to purchase are not allowed to continue in the program.
2) Those with acceptable credit histories are assigned an INHP counselor. The process begins with individual contact from the counselor and one-on-one appointments, during which the counselor discusses the counseling and credit repair processes more thoroughly.
3) Following the first individual meeting, program participants take a three-hour group course on money management, which is open to all INHP clients (including those who need credit repair).

[22] Whether a PHA offers group or individual counseling, counseling can range from brief meetings to intensive sessions. Data on the intensity or duration of counseling sessions were not collected in this survey.

4) Counselors then have further individual meetings with participants to devise a household budget and follow up with credit repair issues.

5) When participants are about three months away from being ready to purchase a home, they take another INHP group course, an eight-hour homebuyer education class.

6) Finally, counselors meet with individual participants to help with the final steps in the purchase process, including selecting a lender and preparing a mortgage application package.

While there are no prescribed topics to be covered in the voucher homeownership pre-purchase counseling, HUD's Final Rule suggests a set of recommended topics: home maintenance, budgeting and money management, credit counseling, searching for a home, negotiating a home purchase, financing a home, fair housing issues, and fair lending issues. Nearly all the survey respondents were covering these topics, as shown in Exhibit 2-13. A few respondents mentioned additional topics, such as predatory lending (10 percent) and home inspections (6 percent).

VHO program administrators rated the effectiveness of their pre-purchase counseling highly. Almost all respondents reported that their pre-purchase counseling had been "very effective" or "effective:" 62 percent said their counseling was "very effective," and 32 percent called their counseling "effective." When asked the reasons for their assessment, program administrators who rated their programs highly generally pointed to the comprehensive nature of the training they provide. They also frequently cited the lack of post-purchase problems with late payments or defaults as indicators of the quality of preparation buyers had received. This is consistent with participant feedback obtained from the case study sites; except at one site, focus group participants made positive comments about the relevance and helpfulness of the pre-purchase counseling they received.

Exhibit 2-13. Frequency of Pre-Purchase Counseling Topics Covered

Topic	N	Percent
Budgeting and Money Management	200	97
Credit Counseling	199	97
Home Financing	197	96
Credit Repair	194	94
Fair Housing	193	94
How to Find a Home	191	93
Home Maintenance	185	90
Truth-in-Lending / RESPA Requirements	176	85
Negotiating House Prices	173	84
Predatory Lending	21	10
Home Inspections	13	6

Source: Survey of VHO programs (N=206). October – November 2005.

Notes: Multiple responses allowed.

Among survey respondents who noted shortcomings of their counseling programs or offered ideas for improving their pre-purchase counseling, several types of challenges were mentioned. Program administrators said the complex nature of the homebuying process was difficult to convey in a limited amount of time, and many prospective VHO purchasers needed lots of "hand-holding." Two respondents said that language barriers were a challenge for non-English speaking clients, although one of the respondents noted that, in spite of the language issues, non-English speaking participants had done well in the program. Comments included:

– *The training material is sophisticated, and we are dealing with challenging clients. It can be overwhelming.*
– *I think it could be more effective if clients could be in it for a longer period of time, but we can't get them to commit to that.*
– *It's effective, but participants still go into "closing shock," because I don't think they're prepared for the amount of paperwork.*

2.5 Home Search and Inspections

Home Search

VHO pre-purchase counseling tends to cover the home search process in a general way, including how to identify and work with a real estate agent, how to assess the condition of a home, and how to balance household "wants" and "needs" in choosing a home and a neighborhood. HUD's guidelines for the VHO program specify that PHAs may establish standards or guidelines for lenders, inspectors, or real estate agents, but that program staff should not "steer" participants to particular providers of these services.[23] Because of HUD guidelines, program staff tend to be cautious about the guidance they give VHO participants as they search for a home and a mortgage lender. In both the 2003 study and in the site visits conducted for this study, we found that VHO program staff sometimes provided lists of real estate agents and lenders and often recommended that the purchaser seek to pre-qualify with a lender, but otherwise program staff were not actively involved in helping participants search for a home.

In a few cases among the 10 programs visited for this study, counseling partners offered some support to the home search process, but by and large, participants conducted their real estate agent and home searches independently. New Hampshire and Los Angeles are special cases. The New Hampshire Community Loan Fund, one of the financial partners for the New Hampshire Housing Finance Authority, offers home search assistance to its developmentally-disabled voucher homeownership participants. Staff work with these participants to help them understand current and future accessibility needs and sometimes accompany participants in their home search. In Los Angeles, the PHA and partner organization jointly held a real estate agent training session for 25 to 30 real estate agents, training them on the voucher homeownership program. Consistent with HUD's guidelines, there was no requirement for participants to use these agents, however.

23 Final Rule, Federal Register, Volume 65, No. 177, September 12, 2000, p. 55139.

According to survey results, 66 percent of purchasers in the voucher homeownership program used a real estate agent to find a home. At the PHA level, 27 PHAs (13 percent) said none of their purchasers used a real estate agent, while 75 PHAs (36 percent) said all of their program purchasers used a real estate agent.

In most cases, focus group participants at the 10 case study sites did not cite any problems working with real estate agents. There were a few exceptions in Indianapolis and Bernalillo County. In Indianapolis, some participants said they were steered by real estate agents toward more expensive neighborhoods than they could afford. In a few cases, participants said the real estate agent encouraged them to relinquish their voucher in order to avoid the VHO program requirements. (In Indianapolis, the PHA limits the loan types and amounts VHO program participants can receive, and therefore the houses they can afford.) In Bernalillo County, some participants said that they felt the real estate agents were condescending toward them.

In most of the case study sites, VHO program participants who completed their pre-purchase counseling and were ready to look for a home obtained a pre-qualification statement from the PHA or a lender partner that provided an estimate of the HAP they would receive and the price range they could afford. Once a participant was pre-qualified, the time it took to find a home varied greatly across sites. In less costly housing markets such as Bernalillo County, participants were able to find homes in a matter of weeks. By contrast, participants in Los Angeles' high-cost market often needed more than the initial 180-day search period authorized in their pre-qualification letter to find a house. At the time of the site visit, 132 of the 300 households who were authorized to look for a home were close to their 180-day limit. Although participants could apply for an extension to keep looking, program staff said some households search for up to a year and then give up. Even in relatively low-cost housing markets, finding a house that is in good condition can be a challenge. This was the case in Indianapolis: house prices were fairly low, but finding a home in a good neighborhood and in good condition often took the full 180 days allowed once a participant had been pre-qualified.

Home Inspections

All homes purchased through the voucher homeownership program are required to have two separate inspections: a Housing Quality Standards (HQS) inspection and an independent inspection. Both inspections must have taken place and the home must have passed the HQS inspection (including re-inspections as necessary) before homeownership assistance can begin. The HQS inspection is conducted by PHA staff and ensures that the house meets HUD's national standards for safety and habitability. The same HQS criteria are used for the homeownership program as for the Housing Choice Voucher rental program. The HQS inspection does not include an assessment of the adequacy and life span of the major building components, building systems, appliances, or other structural components. All repairs required for the unit to pass HQS must be done at the seller's expense and prior to closing. PHAs may also require or recommend additional repairs identified by the independent inspector, over and above what is needed for the unit to pass HQS. HUD regulations, however, only require that the house pass the HQS inspection.

VHO program administrators reported varying experiences with homes passing the HQS inspection on the first attempt. Programs that had between 11 and 100 purchases most often reported that at least three-quarters of homes passed HQS inspections the first time. Among the PHAs with the fewest purchases, 11 percent of survey respondents said none of the homes passed HQS the first time (see Exhibit 2-14).

Exhibit 2-14. Percent of Homes that Pass First HQS Inspection, by Number of Purchases

	Percent of Homes that Pass First HQS						
Number of Purchases	**N**	**0%**	**1% to 25%**	**26% to 50%**	**51% to 75%**	**76% to 100%**	**Do Not Know**
1-10	108	11	15	9	15	48	2
11-25	47	9	23	9	6	49	4
26-50	26	4	30	8	8	46	4
51-100	15	7	14	27	7	40	7
101+	3	0	67	0	33	0	0
Overall	**199**	**9**	**20**	**10**	**12**	**46**	**3**

Source: Survey of VHO programs (N=206). October – November 2005.

Note: Table includes 199 PHAs who reported both a number of purchases and the percentage of homes that pass first HQS.

While a large rate of homes failing the first HQS inspection might seem to be cause for concern, program staff in the sites we visited clarified that this was not the case. Staff in several sites said homes generally did not pass HQS the first time (e.g., Lorain, Chicago, Fulton County, and Pinellas County). In all cases, however, staff said that the reasons for failure tended to be minor, and the problems were quickly fixed by the seller. Only in a few cases have sales fallen through because of a need for major repairs or sellers unwilling to make repairs. For instance, staff in Lorain reported three such cases. Chicago staff cited a few instances in which the independent inspection revealed repairs in excess of $1,500; these purchases were not allowed to proceed out of concern that the participants would not be able to afford the repairs needed.

The independent inspections are conducted by private home inspectors. Regulations for what is inspected vary by state. Long-term and structural issues should be addressed by the independent inspections. Thus, these inspections may be more important than the HQS in ensuring that program participants do not purchase units that will require large outlays for repairs. The thoroughness of these inspections, however, depends upon individual inspectors. A poor quality independent inspection may have more serious consequences for voucher participants than for higher-income homeowners, because the voucher participant may have very little financial capacity to address major unanticipated repairs.

While most purchasers we spoke to had not had problems related to inspections, a few focus group participants had repair needs that had not been identified in their independent inspections. One purchaser described a drainage problem that the inspectors had missed. Another said that, because she had her home inspected in the winter, the inspector had not tested the air conditioning. She had to make expensive repairs when summer arrived and the system did not work. Overall, however, focus group participants were satisfied with the quality of the private inspections.

2.6 Post-Purchase Activities

PHAs offering the voucher homeownership option have considerable discretion in determining what will be offered to – or required of – program participants after they purchase. As in the rental voucher program, PHAs are required to conduct annual reexaminations of participants' income and household composition to confirm continued eligibility for the program and, if necessary, adjust the amount of the PHA's monthly housing assistance payment (HAP). Post-purchase homeownership counseling and HQS inspections are not required; however, PHAs may include requirements in these areas in the statement of homeowner obligations that participants sign before receiving homeownership assistance. Once participants have closed on a home, PHA staff may track participant loan payments and address problems of loan defaults or foreclosures.

The 2003 study of the voucher homeownership program found that few of the 12 sites included in that study had developed a counseling component for program participants after they purchased.[24] In the present study, we found that most VHO programs offered some type of post-purchase assistance, but post-purchase activities generally were not required, and the range of types of assistance available were often limited.

Post-Purchase Counseling

The majority of VHO program administrators said they offer post-purchase counseling to their voucher homeownership participants, although the counseling may not be very extensive and may not reach all purchasers. When asked whether the PHA offered post-purchase counseling, 79 percent of survey respondents said they offered post-purchase counseling to all their VHO program participants, as shown in Exhibit 2-15. Only 15 percent said they did not offer post-purchase assistance to any of their purchasers. PHAs offering post-purchase counseling did not necessarily require it. Roughly 52 percent of all programs surveyed said post-purchase counseling was a requirement for at least some participants.

Those who offered at least some post-purchase counseling said that, on average, half of their purchasers (52 percent) had received it. Even those programs that required post-purchase activities reported that only an average of 66 percent of purchasers had received the post-post purchase counseling. This implies that post-purchase requirements are not strictly enforced.

[24] Findings on how PHAs are monitoring mortgage payments are presented in Chapter Three.

Exhibit 2-15. Percent of PHAs Offering Post-Purchase Counseling

Does PHA Offer Post-Purchase Counseling?	N	Percent
Yes, offer it to all participants	162	79
Yes, offer it to some participants	10	5
No, don't offer it at all	31	15
Do not know if it's offered	3	1
Does PHA Require Post-Purchase Counseling?	**N**	**Percent**
Yes, require it of all participants	95	46
Yes, require it of some participants	13	6
No, don't require it of any participants	64	31
Total Number of Programs Offering Post-Purchase Counseling	**172**	**83**

Source: Survey of VHO programs (N=206). October – November 2005.

The types and levels of post-purchase counseling offered or required by the case study sites provide some insights into how post-purchase services are offered and delivered. Program staff in all 10 sites had some form of contact with participants after purchase (in addition to the annual recertifications), although few offered or required actual counseling courses. More commonly, staff made check-in calls or had informal contact with participants, sometimes with additional counseling made available to those who needed it.

Examples of post-purchase activities from the case study sites were:

- In Lorain, all program purchasers are required to take a predatory lending class.
- New Hampshire Housing Finance Agency (NHHFA) requires that all voucher homeownership participants participate in some kind of post-purchase counseling. One month after purchase, the homeownership counselor sends a letter to the participant, requesting him or her to participate in a one-on-one post-purchase counseling session at the NHHFA or in some other type of post-purchase activity through program partners. During the session, participants review topics on home maintenance, budgeting and money management, predatory lending, and home safety and record keeping. Program staff make three attempts to contact purchasers for post-purchase counseling and send binders with counseling materials to non-responders. Even though it is required, NHHFA reported that only about 65 percent of program purchasers have participated in post-purchase counseling.
- Fulton County and Pinellas County require all participants to attend post-purchase counseling seminars and individual counseling sessions, but at both places the requirement was not strictly enforced. Focus group participants said they had not even realized these requirements were in place.

- Indianapolis and Chicago helped facilitate peer support among purchasers. In Indianapolis, purchasers were invited to join a Homebuyer's Club to meet with fellow purchasers to talk about such issues as maintenance and repairs. The Homebuyer's Club had not met for some time at the time of the visit, however, and focus group participants said they did not know about the Club.
- Chicago program staff buy all purchasers a one-year membership to Angie's List, an online forum where homeowners share recommendations for repair companies and contractors.
- Los Angeles offers, but does not require, post-purchase counseling offered through a partner organization.
- The least structured of the 10 case study sites in terms of post-purchase counseling is Montgomery County, where, according to focus group participants, informal contact is maintained between program purchasers and PHA staff.

As with pre-purchase counseling, post-purchase counseling can take different forms. Similar to pre-purchase counseling, post-purchase counseling can be offered as individual counseling, group counseling with other voucher homeownership participants, or group counseling with other new homeowners not associated with the voucher program. As seen in the examples from case study sites, what programs consider post-purchase counseling can vary from structured courses to individual phone calls. Exhibit 2-16 shows the most common formats of post-purchase counseling reported by survey respondents. Respondents could cite more than one format.

Exhibit 2-16. Frequency of Post-Purchase Counseling Formats

Counseling Format	N	Percent
Respond to needs of purchasers as requested	147	71
Individual household sessions	139	67
Follow-up calls to purchasers	98	48
Included in annual recertification	61	30
Group – open to non-HCV participants	36	17
Group – only HCV homeownership participants	29	14
Peer support sessions	23	11
Monthly workshops	23	11
Other	21	10
Total Number of Programs Offering Post-Purchase Counseling	**172**	**83**

Source: Survey of VHO programs (N=206). October – November 2005.

PHAs tended to conduct post-purchase counseling in individual settings rather than group sessions, although staff in several case study sites mentioned that workshops and other forms of group sessions were being planned or considered for the future. None of the survey respondents who offered post-purchase counseling was purely reactive; those who said they respond to needs of purchasers as requested also offered counseling in at least one other format.

The content of post-purchase topics was concentrated around a few topics: budgeting and money management, home maintenance, and predatory lending, as shown in Exhibit 2-17.

Exhibit 2-17. Frequency of Post-Purchase Counseling Topics Covered

Counseling Topics	N	Percent
Budgeting and money management	154	75
Home maintenance	149	72
Predatory lending	131	64
Default / foreclosure prevention	11	5
Home equity loans	8	4
Refinancing	6	3
Other	27	13
Total Number of Programs Offering Post-Purchase Counseling	**172**	**83**

Source: Survey of VHO programs (N=206). October – November 2005.

Maintenance Monitoring

Unlike the HCV rental program, the voucher homeownership program does not require annual HQS inspections. PHAs may require this on their own, however. For example, the program coordinator in Lorain conducts a walk through inspection at each participant's annual recertification to make sure the property is being adequately maintained.

Similarly, there is no HUD requirement for voucher homeownership participants to set aside maintenance or repair funds, but some PHAs have implemented requirements of their own. Roughly 43 percent of voucher homeownership programs surveyed said they required purchasers to set aside funds for maintenance and repairs. However, there did not appear to be a uniform way of monitoring that these savings are in fact set aside. Some 18 percent of those who said they required the savings did not monitor these savings at all.

2.7 Staffing

The level of staff effort PHAs allocate to VHO programs depends on a number of factors, including program enrollment, the extent of the PHA's role in the program as opposed to the roles of partner organizations, and the availability of PHA staff to work with VHO participants. Survey respondents were asked to estimate the number of hours per week that staff at the PHA spend on activities related to the voucher homeownership program. Responses for total weekly hours spent ranged from one hour per week to 171 hours per week, with an average of 23 hours per week. The amount of time spent per client decreases as total enrollment increases, but not as purchases increase.

Logically, larger programs will have higher staffing needs, but larger programs may have lower staffing needs per participant. There may be an economy of scale such that once programs reach a certain level of enrollment and counseling programs have been designed and procedures put in place, additional participants do not require much additional staff. Staffing effort by the number of active participants (i.e. everyone currently receiving counseling and those who completed counseling and are actively pursuing homeownership, not including those who have dropped out or successfully purchased homes) are shown as weekly staff hours per active participant in Exhibit 2-18.

Exhibit 2-18. Staffing Effort by Total Number of Participants

Number of Participants	Weekly PHA Staff Hours per Active Participant				
	N	Minimum	Maximum	Median	Mean
0-10	75	.17	20.00	2.40	3.91
11-25	40	.14	6.14	.97	1.18
26-50	27	.04	3.57	.74	.80
51-100	27	.07	.85	.40	.39
101+	26	<.01	1.53	.17	.23
Overall	**195**	**<.01**	**20**	**.80**	**1.94**

Source: Survey of VHO programs (N=206). October – November 2005.

Note: The 195 respondents giving responses to both number of participants and number of weekly staff hours are included in the table. Programs who cited having zero active participants at the time of the survey are included in the first category. These programs did not have participants who were receiving counseling or actively looking for a home at the time of the survey, but still have VHO programs.

In fact, there does appear to be an economy of scale associated with operating voucher homeownership programs. On average, programs with zero to 10 active participants expended nearly four hours of staff time per participant per week. This average steadily decreases, with programs that have over 100 participants only spending a quarter of an hour of staff time per participant, per week. It appears that as programs grow and procedures have been established, additional participants can be enrolled without greatly increasing staff time. An alternative explanation for the pattern seen could be that resources are not sufficient to expand staffing as the numbers of participants increase, reducing the amount of staff time per participant as the program grows.

In general, partnering with outside agencies for pre-purchase counseling appears to reduce slightly the staffing burden on PHAs. Those who said they partner with at least one organization cited an average of 1.86 weekly staff hours per active participant, while those who said they do not have any partner agencies reported at average of 2.46 weekly staff hours per participant.

Staffing levels did not vary as greatly with increased purchases. Average staffing levels by number of purchases are shown in Exhibit 2-19. Unlike the pattern seen with staff hours per active participant, there does not appear to be an economy of scale; regardless of the total number of purchases, additional purchasers add roughly the same amount of staff time. Conducting and reviewing inspections, working with lenders, and reviewing closing documents must be individualized, requiring additional staff time for each purchaser. Post-purchase counseling also tends to be done on an individual basis, rather than in large group counseling sessions. These all may be factors contributing to the staffing pattern seen.

Exhibit 2-19. Staffing Effort by Total Number of Purchases

Number of Purchases	Weekly PHA Staff Hours per Purchase				
	N	Minimum	Maximum	Median	Mean
0-10	75	.051	40.00	1.50	3.68
11-25	40	.21	21.50	2.02	4.03
26-50	27	.09	30.00	1.60	4.03
51-100	27	.35	15.00	1.59	4.01
101+	26	.09	25.00	1.44	2.71
Overall	**195**	**.05**	**40**	**1.67**	**3.72**

Source: Survey of VHO programs (N=206). October – November 2005.

Note: The 195 respondents giving responses to both number of purchases and number of weekly staff hours are included in the table.

Half of survey respondents said their staffing needs were greater at the time of the survey than during the period leading up to the program's first purchase. The reasons cited generally had to do with program growth. Even with economies of scale that reduce the staff time per participant, more staff were needed to support growing numbers of participants. Furthermore, as participants progressed through the program, the range of staff responsibilities grew. As mentioned above, with home purchases also come home inspections, paperwork, and post-purchase counseling. Forty-one percent of survey respondents said the staffing needs now were the same as before, and only nine percent said their staffing needs were less. Of the small number who said their staffing needs had decreased, most said this was because the staff understood the program better and administrative procedures were in place.

2.8 Barriers to Program Implementation

Survey respondents were asked to name the single greatest barrier they have faced in implementing the voucher homeownership program. Responses offered by the survey respondents spanned a range of issues, from high-cost housing markets, to participants not being purchase-ready, to insufficient PHA resources (Exhibit 2-20). The most common response was high housing prices, with 44 percent of VHO program administrators saying this was the greatest barrier they have faced.

The next most common response was participant credit problems. Staffing shortage was one of the more common barriers cited, with 11 percent reporting a shortage of PHA staff as the greatest barrier they face in program implementation.

Exhibit 2-20. Frequency of Greatest Barrier to Program Implementation

Barrier	N	Percent
High housing prices	90	44
Participant credit problems	37	18
Shortage of PHA staff	22	11
Lack of downpayment	14	7
Difficulty finding lenders	10	5
Difficulty recruiting	8	4
Difficulty finding counseling partners	0	0
Other	25	12

Source: Survey of VHO programs (N=206). October – November 2005.

Only four percent of respondents said difficulty recruiting participants was their greatest obstacle to program implementation. In support of this finding, none of the case study sites reported recruitment as a difficulty. Lorain and Bernalillo County intentionally limited recruiting efforts so as not to become overwhelmed with more participants than staff could handle.

Although listed as an option, none of the survey respondents reported that difficulty finding counseling partners was the greatest barrier they have faced. Nonetheless, finding counseling partners may be a challenge for some PHAs. Although staff at the Lorain Metropolitan Housing Authority consider their fully in-house program a great success, Lorain's voucher homeownership staff have made efforts to find counseling partners in their area. Potential partners either have been located too far away for participants or have not had sufficiently comprehensive curricula.

2.9 Summary

According to PHA staff we interviewed in our site visits, they elected to implement a program because voucher homeownership offered a logical add-on to their FSS programs or other asset-building initiatives. Other reasons to implement the program included existing or newly established relationships with counseling organizations, lenders, and other partners; the affordability of the local housing market; and the potential for homeownership to enhance the PHA's image in the broader community.

PHAs generally are "casting a broad net" in recruiting prospective homebuyers for the VHO program. Fewer than 20 percent of the VHO administrators we surveyed said their programs had income or employment criteria beyond HUD's minimum requirements. Of those programs with additional targeting, FSS participants are the most commonly targeted group: 29 percent of programs require FSS, and another 34 percent give preferential access to FSS participants. The level of interest in homeownership had met or exceeded most VHO administrators' expectations, although a number of survey respondents noted that high home prices and problematic credit histories dampened some potential applicants' enthusiasm for the program.

Most PHAs (85 percent) had engaged program partners to provide pre-purchase counseling to program participants, yet PHA staff still devoted considerable staff time to assisting VHO participants before, during, and after they buy a home. Pre-purchase counseling covered the topics suggested in HUD's Final Rule and typically was provided through a combination of group instruction and individual sessions. Few programs develop and provide counseling exclusively for VHO program participants. More often, VHO program participants receive at least some of their pre-purchase counseling in groups with other first-time homebuyers. Most program administrators said their pre-purchase counseling curriculum was effective, although some considered the material to be complex and difficult to convey in the amount of time allocated for counseling.

Some PHA staff said they provide program participants with lists of real estate agents, but otherwise generally do not help program participants with the home search process. In the case study sites (where we were able to discuss the home search process in more detail than in the survey), program staff in several sites (including both high- and low-cost communities) reported that finding an affordable home in a good neighborhood is a challenge. Once participants found a home, the HQS and independent home inspections usually did not derail the purchase. It was not uncommon for homes to fail the first HQS inspection, but the problems were usually minor and easily remedied by the seller. Similarly, we heard of only a few cases where problems identified by an independent inspection caused a purchase to fall through.

The majority of VHO administrators we surveyed said they offered some post-purchase support to VHO purchasers. However, as the 2003 study found, post-purchase assistance was less well-developed than the pre-purchase counseling component. Even in the roughly one-half of VHO programs in which post-purchase counseling was required, administrators acknowledged that only about two-thirds of purchasers participated. Some focus group members in several sites that offered post-purchase activities confirmed that they were not aware of post-purchase activities or that they had not participated.

For PHA administrators who are considering implementing a VHO program, a number of the findings on program design are instructive. The predominant use of partner organizations to provide pre-purchase counseling should be encouraging for PHAs that have been wary of implementing a VHO program because their own staff do not have expertise in homeownership. Our findings indicate that most PHAs have been successful in finding partners to provide some or all of the pre-purchase counseling. In addition, because voucher program participants are likely to be eligible for first-time homebuyer training that the partner organization is already providing, partner organizations may have funding to cover some or all of the cost.

Even when partners assume some of the responsibility, however, PHA staff still devote considerable time to the program, especially as participants complete their counseling and need support through the purchase process. The amount of time spent per client decreases as total enrollment increases, but not as purchases increase.

Given that the VHO administrators we surveyed cited high home prices as the primary barrier they face in implementing their programs, PHA staff who are considering implementing a VHO program should examine the incomes of households in their rental voucher program, their agency's payment standards, and the availability of housing at prices that would be affordable to voucher holders. In the next chapter, we review how the VHO programs we studied are approaching financing homeownership.

Chapter Three
Financing Homeownership

As of December 2005, more than 4,000 VHO program purchases had been reported to HUD's Public and Indian Housing Information Center (PIC) system. The 206 VHO program administrators surveyed for this study reported that more than 22,000 people were participating in their PHA's voucher homeownership programs. Nearly 10,000 had completed counseling and more than 3,400 had purchased a home. Another 273 households had entered a purchase contract but had not yet closed at the time of the survey. More than 90 percent of purchasers who used their voucher to purchase a home were still receiving voucher assistance at the time of the survey. Of the small number no longer receiving assistance, nearly all had left the voucher program because of increases in household income.

This chapter examines the various approaches to using voucher assistance to finance homeownership at voucher homeownership programs. It begins by summarizing the three typical approaches to the use of the housing assistance payment (HAP) during mortgage underwriting. This section also addresses other aspects of financing, including downpayment requirements, permitted loan types, and sources of subsidies beyond the HAP. The chapter then discusses processes and policies associated with lenders, including underwriting methods and how the HAP subsidy is paid. The remainder of the chapter presents an analysis of purchase transactions from the case study sites, using both data collected on a sample of purchases during the site visits and data HUD's PIC system on all purchasers at the same 10 sites.

3.1 Financing Models

The amount of the housing assistance payment (HAP) in the housing choice voucher program's rental and homeownership components is determined by formula. While the formulas are slightly different for the rental and homeownership programs, they have identical limits in terms of the maximum amount that can be paid via the HAP, according to the number of bedrooms on a client's voucher. In the voucher rental program, the HAP equals *gross rent* (rent plus a utility allowance, as applicable) minus the *total tenant payment* (TTP, which equals thirty percent of adjusted monthly income). If the gross rent is higher than the *payment standard* established by the PHA based on the number of bedrooms on the client's voucher, then the HAP equals the payment standard minus the TTP. In the voucher homeownership program, the HAP equals *gross homeownership expenses* minus the TTP. Gross homeownership expenses include PITI (principal and interest on the mortgage, real estate taxes, home insurance and private mortgage insurance, as applicable), a utility allowance, a maintenance allowance, a repair/replacement allowance, co-op or condominium fees, and principal and interest on debt for any home repairs. While this long list of expenses can add up to a considerable sum, if the gross homeownership expenses exceed the payment standard based on the number of bedrooms on the client's voucher, then the HAP equals the payment standard minus the TTP, just like in the rental program.

As was found during the 2003 HUD study of voucher homeownership, programs used three main "models" for financing VHO purchases. These models refer to how lenders treat the voucher subsidy, known as the Housing Assistance Payment (HAP), during the mortgage underwriting process. We refer to the models as (1) HAP as income, (2) HAP as offset, and (3) the two-mortgage model.

In the ***HAP as income*** model, the lender considers the HAP amount to be part of the participant's monthly income. The lender qualifies the participant for a mortgage based on the household's earned income plus the HAP (which is "grossed up" by 25 percent to account for the fact that it is not taxable), using the lender's qualifying ratio. For example, if the lender has a qualifying ratio of 28 percent, the lender will be willing to make a loan to the participant as long as the mortgage payment is less than or equal to 28 percent of the grossed up HAP plus the household's earned income. Under this model, only 35 percent of the HAP (125 percent of the HAP times 28 percent) is considered when qualifying the participant for a mortgage. The HAP as income model gives participants the least borrowing power of the three models, but it also carries the least risk because it results in the lowest participant contribution to the monthly mortgage payment. This model's treatment of the HAP is also the most similar to traditional underwriting and, therefore, may be more appealing to lenders. Furthermore, beginning in September 2001, FHA required the HAP be treated as income in determining homebuyers' qualifying ratios for FHA-insured mortgages.[25]

In the ***HAP as offset*** model, the lender first determines the monthly mortgage payment for which the participant qualifies based solely on the household's income (using the lender's qualifying ratios). The lender then adds the amount of the monthly HAP to that monthly mortgage payment to generate a maximum monthly mortgage payment and calculates the total mortgage amount from this maximum monthly payment. Because the entire HAP is used to offset directly monthly mortgage payments, this model gives participants the most borrowing power of the three models. However, this model is also considered the riskiest of the three because it results in a higher payment burden over the mortgage term.

In the ***two-mortgage model***, the participant qualifies for a first mortgage based on his or her income alone. The participant then obtains a second mortgage based on the HAP. This second mortgage typically has a term no longer than the term of the HAP (ten or 15 years for non-elderly, non-disabled borrowers, depending on the term of the first mortgage), so that by the time the HAP runs out, the second mortgage is paid off. This model yields less borrowing power than the HAP as offset model because the HAP is amortized over a shorter period of time, but it offers more borrowing power than the HAP as income model. Similarly, the level of risk is in the middle, because the payment burden over the life of the mortgage is higher than the HAP as income model, but lower than the HAP as offset model.

The HAP as income model was the most commonly used model, according to program administrators surveyed for this study. When asked which model was used most commonly, the majority of respondents (60 percent) said that lenders in their programs typically treated the HAP as income, as shown in Exhibit 3-1. Just under one-quarter of respondents (23 percent) said their lenders primarily

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[25] FHA Mortgagee Letter 2001-20, September 7, 2001. Note that the FHA recently changed its policy and now insures mortgages that use the HAP as offset model. The change in FHA underwriting policy was announced on July 29, 2005 in mortgagee letter 2005-32.

used the HAP as offset model, and only 6 percent said lenders primarily used the two-mortgage model.[26]

Exhibit 3-1. Treatment of the HAP in VHO Program Purchases

	N	Percent
HAP treated as income	123	60
HAP treated as offset	48	23
Two-mortgage model	13	6
Do not include HAP in mortgage calculation	5	2
Do not know	17	8

Source: Survey of VHO programs (N=206) October–November 2005.

Note: Respondents were asked which model was used most often. Multiple responses were not allowed.

Feedback from the site visits indicated that it was not uncommon for more than one financing model to be used at the same program. Multiple financing models were used in New Hampshire, Bernalillo and Chicago. Program administrators from these sites indicated that different lenders preferred to use different financing models, depending on the kinds of loan products used and whether they planned to sell the loans to the secondary mortgage market.

3.2 Financing Terms and Requirements

While HUD has not established specific requirements around financing terms for VHO purchases, PHAs are required to demonstrate their ability to avoid lending abuses in their VHO programs. Program rules (24 CFR 982.625) provide PHAs three ways to demonstrate their capacity to run a VHO program, two of which are related to purchase financing terms. PHAs may:

- Establish a minimum downpayment requirement (three percent of the purchase price, with at least one percent coming from the family's own resources); or
- Require financing to meet one of the following: provided, insured or guaranteed by state or Federal government; complies with secondary mortgage market underwriting requirements; or complies with generally accepted private sector underwriting standards; or
- Demonstrate in the PHA's Annual Plan that it has the capacity, or will acquire the capacity, to successfully operate a homeownership program.

[26] Two percent of survey respondents indicated that lenders do not consider the HAP at all during underwriting, and eight percent did not know lenders' typical approach to the HAP. We do not know for sure what is happening at the five VHO programs whose administrators reported that the HAP is not included in the mortgage calculation. It is possible that in these programs, purchaser income is sufficient to cover mortgage costs, but that purchasers need the HAP to cover other expenses, such as utilities, condominium fees, repairs/replacements, and principal and interest on any rehabilitation.

Thus, if PHAs chose to demonstrate capacity using one of the first two options, we would expect to see three percent downpayment requirements or government-insured mortgages.

The majority of surveyed programs (72 percent) had minimum downpayment requirements for program purchases (Exhibit 3-2), although not all reflect the three percent downpayment suggested by HUD.[27] Almost half (45 percent) of programs with minimum downpayment requirements defined the minimum as one percent of the purchase price. Another 36 percent of programs with a requirement defined the minimum downpayment as a percentage of the loan value, usually either one percent (33 percent of these programs) or three percent (54 percent of these programs). The remaining 18 percent of PHAs with a downpayment requirement required a minimum, fixed dollar amount as a downpayment, most often between $500 and $1,500.

When asked if they had specific minimum downpayment requirements from *purchaser cash only*, 28 percent of respondents required a minimum percentage come exclusively from purchaser cash (usually one percent), while 14 percent of respondents required that a minimum dollar amount come exclusively from purchaser cash, most commonly between $400 and $1,000. (See the Purchase Transaction section below for information on purchaser cash invested for the sample of purchase transactions studied.)

Exhibit 3-2. Downpayment Requirements

	N	Percent
No standard requirement	**55**	**27**
Some requirement	**148**	**72**
Required % of purchase price	**66**	**32**
1% of purchase price required	66	32
Required % of loan value	**54**	**26**
1%	18	9
>1% <3%	2	1
3%	29	14
>3%	4	2
Do not know	1	<1
Required minimum fixed dollar amount	**26**	**13**
<$500	8	4
$500-1,500	14	7
>$1,500	3	1
Do not know	1	<1

Source: Survey of VHO programs (N=206) October–November 2005.

We also asked survey respondents whether purchasers were permitted to use adjustable rate financing to purchase a home through the VHO program. Most voucher homeownership programs allowed

[27] Unless otherwise noted, downpayment requirements refer to downpayments including all sources of funds, including grants, forgivable loans, and purchaser cash.

only mortgages with fixed interest rates. Less than a quarter of surveyed programs (22 percent) permitted the use of adjustable-rate mortgages (ARMs). Among programs that allowed ARMs, half allowed them only on a case-by-case basis and required review by the PHA before the purchase could proceed.

3.3 Additional Funding Sources for Program Purchases

The subsidy provided by the HAP alone may not be enough to allow an HCV program participant to move from renting to owning, even if the family meets HUD’s income and employment requirements for the homeownership program. Many families needed downpayment assistance or other forms of subsidy to make the initial purchase transaction and the longer-term payment burden affordable. We found that, in addition to the significant subsidies provided by the HAP, other sources and forms of subsidies were available to program purchasers in many programs, as summarized in Exhibit 3-3.

Downpayment assistance grants were available to purchasers at the vast majority of surveyed programs (84 percent). Three-quarters of surveyed programs had purchasers who used Family Self-Sufficiency (FSS) program escrow accounts to help finance their purchases. Below-market or forgivable second mortgages were available at almost half of surveyed programs (47 percent), as were Individual Development Accounts (IDAs) or other matched savings programs (46 percent). Grants or below-market loans for rehabilitation costs were available to purchasers at a quarter of surveyed programs.

Exhibit 3-3. Additional Funding Sources for VHO Purchases

Source	N	Percent
Downpayment assistance grants	174	84
FSS escrow accounts	155	75
IDA or other matched savings accounts	94	46
Below-market or forgivable second mortgage	96	47
Grant/below-market loan for rehabilitation	52	25

Source: Survey of VHO programs (N=206) October–November 2005.

Note: Multiple responses allowed

Across all programs 59 percent of respondents said the assistance for the grants and below market rate loans they had available came through city or county housing and community development agencies. Forty-three (43) percent reported that the assistance came from lenders, 36 percent said state housing finance agencies (HFAs) provided assistance, and 37 percent cited assistance from community development corporations (CDCs) or affordable housing organizations. (See Exhibit 3-4.) Both public community development agencies and private community development corporations are probably using HUD Community Development Block Grant (CDBG) funds or Home Investment Partnership (HOME) program funds to provide assistance to VHO program purchasers. State housing finance agencies probably are also using HOME funds to assist program purchasers. See the

Purchase Transaction section below for information on non-HAP subsidies among the sample purchase transactions from the case study sites.

Exhibit 3-4. Providers of Additional Funding for VHO Purchases

Provider	N	Percent
City or county community development agency	121	59
Lenders	88	43
CDC or other affordable housing organization	76	37
State Housing Finance Agency	75	36
USDA	6	3

Source: Survey of VHO programs (N=206) October–November 2005.

Note: Multiple responses allowed

3.4 Lender Partners and Procedures

Building strong relationships with lenders is crucial to the successful implementation of the VHO program, and HUD's 2003 study of the Voucher Homeownership Program identified developing partnerships with lenders as one of the biggest challenges to program implementation. Most VHO programs had a limited number of lender partners, according to survey respondents interviewed for the current study. Sixty-nine (69) percent of surveyed programs worked with between one and five lenders (Exhibit 3-5).[28] About a fifth of programs (18 percent) worked with between six and 10 lenders. VHO administrators reported working with 4.4 lenders, on average.

HUD has prohibited PHAs from requiring that program purchasers use one or more specified lenders.[29] This means that while partner lenders may be most familiar with the VHO program and have procedures in place for VHO purchasers, purchasers are free to secure a mortgage from any lender that meets the minimum requirements established by the PHA relating to lender qualifications and the types and terms of financing permitted. That is, PHAs cannot limit purchasers to lenders with whom they have formal partner arrangements. Based on feedback from the site visits, most VHO purchasers tended to use partner lenders. Focus group purchasers usually were pleased to work with partner lenders who understood the program and knew how to use the HAP during underwriting. At the same time, some purchasers said they did not have real choices of lenders because, when

28 Survey respondents were asked, "How many lending institutions has your PHA partnered with?" Based on feedback from PHA staff during the site visits, PHAs typically considered their lender partners to be those institutions with which they have established a relationship. For example, 14 different lenders had provided at least one mortgage to VHO program purchasers in Bernalillo County as of August 2005, but the PHA considered the lender that had made loans to the majority of program purchasers to be its only lending partner.

29 24 CFR 982.632.

purchasers sought mortgages from non-partner lenders, these lenders often did not understand the program and were not interested in taking the time to learn program details.

Exhibit 3-5. Number of Lender Partners

	N	Percent
0	11	5
1-5	143	69
6-10	37	18
>10	10	5
Do not know	1	<1

Source: Survey of VHO programs (N=206) October–November 2005.

Types of Lender Agreements

PHAs typically had informal arrangements rather than formal written agreements with their lender partners. Some 64 percent of program administrators reported having no written agreements with any of their partner lenders (Exhibit 3-6). One-fifth (20 percent) of surveyed programs had written agreements with all of their partner lenders, while an additional 12 percent had agreements with at least some of the lenders who worked with VHO participants.[30]

Exhibit 3-6. Types of Agreements with Lender Partners

	N	Percent
No written agreements	132	64
Written agreements with all lenders	42	20
Written agreements with some lenders	25	12
Do not know	7	3

Source: Survey of VHO programs (N=206) October–November 2005.

Underwriting Procedures

One potential barrier to gaining lender participation in the VHO program is that lenders may be concerned that the underwriting process will be more complicated, perhaps requiring more labor-intensive manual underwriting rather than automated processing. We asked survey respondents how lenders generally handled underwriting. A significant proportion of surveyed programs (37 percent) did not know how underwriting was done by their partner lenders. About a quarter (26 percent) of surveyed programs reported that their lenders generally used manual underwriting, while 16 percent of programs reported that their lenders used automated underwriting. About a fifth (21 percent) of programs reported that their lenders used both manual and automated underwriting.

[30] Three percent of surveyed programs did not know whether or not they had written agreements with their lender partners.

Payment Processing

One of the challenges in servicing loans made through the voucher homeownership program is deciding how the HAP payment will get to the lender and how it will be credited to the purchaser's mortgage. The typical approaches are as follows:

- The PHA sends the HAP to the purchaser (via a check or direct deposit). The purchaser then either sends a check for the full mortgage payment to the lender or has the payment automatically deducted from his or her account. In this case, the lender deals with only one payment.
- The PHA sends the HAP directly to the lender, who credits the payment to the purchaser's mortgage. The purchaser then either sends a check for the household's portion of the mortgage payment to the lender or has the household portion automatically deducted from the household's account. In this case, the lender deals with payments from two difference sources.
- The PHA deposits the HAP in a special account designated for this purpose. The purchaser usually pays the household's portion into this designated account, and the lender then deducts the entire monthly payment. In this case, after creating the designated account, the lender typically deals with only one payment. Sometimes the purchaser pays the household portion directly to the lender and the lender deducts the HAP amount from the designated account.

Just over half (52 percent) of survey respondents reported that the HAP usually was sent to the lender, and just under half (47 percent) reported that the HAP usually was sent to the purchaser.[31] Among programs that sent the HAP to purchasers, the reason usually was that lenders found one mortgage payment most convenient because the entire payment could be credited at once. In at least two of the case study sites, program administrators said that sending the HAP to the purchaser was a matter of principle. Both the Chicago and Bernalillo County program administrators said that, if programs cannot trust purchasers with the HAP by the time of purchase, the PHA should not have a voucher homeownership program.

Whatever the arrangement, the timing is critical: the HAP needs to be credited to the mortgage account before the payment due date or the payment will be considered late. Feedback from the case study sites indicated that PHAs worked with banks to create a system that worked best for the lenders. Sometimes lenders preferred the guarantee of getting the HAP sent directly to them, even though this could be cumbersome for the lender. If the loan was held in portfolio, the lender might not mind, but lenders who planned to sell the loans to the secondary market were sometimes reluctant to accept such an arrangement. In at least one site, a lender reported that the PHA had difficulty getting the HAP payments to the lender on time.

[31] The remaining respondents (N=3) did not know to whom the HAP was usually sent.

Mortgage Payment Monitoring

HUD does not require PHAs to track whether program purchasers are making their mortgage payments on time. As shown in Exhibit 3-7, just under three-quarters of survey respondents (73 percent) said they had payment monitoring procedures in place, but the procedures described relied heavily on the lender or the purchaser notifying the PHA if there were problems. Some 40 percent of VHO administrators said they relied on lenders to notify the PHA if there were problems, while 17 percent relied just on the purchaser to contact the PHA. Only five percent of VHO administrators checked in with lenders to find out if there were any payment problems among VHO purchasers.

Exhibit 3-7. Procedures for Monitoring VHO Program Participants' Mortgage Payments

Does PHA Have Procedures for Monitoring Payments?	N	Percent
Yes	150	73
No	56	27
If Yes, What Monitoring Methods are Used?		
Lender notifies PHA	83	40
PHA contacts lender	11	5
Client disclosure only	35	17

Source: Survey of VHO programs (N=206). October – November 2005.

We did not collect detailed information from the survey respondents on how they monitored payments, but the case study sites provided examples of several approaches:

- One of the lenders that worked with the Bernalillo County program sent program staff monthly mortgage reports showing the payments of all of their voucher homeownership clients.
- In Montgomery County, on an annual basis, participants were required to provide program staff with a statement from their lenders saying that they had been making their payments on time.
- The Lorain HCV Coordinator pulled credit reports of all program purchasers annually to see if there were any late mortgage payments.

The Bernalillo County method appeared most likely to catch payment problems in a timely way. The more intermittent monitoring approaches used in Lorain and Montgomery County might not catch payment problems as quickly, although knowing the PHA will be checking up on their payment histories may help encourage purchasers to stay current on their payments.

Delinquencies and Foreclosures

Foreclosures have been very rare, according to survey respondents (see Exhibit 3-8). Only four percent of PHA respondents (eight PHAs) said there had been any foreclosures among their VHO purchases, and no respondent reported more than two foreclosures. There were a total of 10 foreclosures across more than 3,400 purchases that had occurred at all the VHO programs represented by the survey respondents. Five respondents reporting at least one foreclosure had programs that had begun in the year 2000, whereas the remaining three programs with at least one foreclosure had started in 2001, 2003, and 2004. Among the eight program administrators who reported foreclosures, all except one of the represented programs had 10 or more purchases to date. We did not collect any information on when these foreclosures occurred or on the original purchase date of the foreclosures.

Delinquencies were more common than foreclosures, but still fairly infrequent (see Exhibit 3-8). Twelve percent of respondents (25 PHAs) reported that they had one or two mortgages that were currently delinquent or in default. No respondent reported more than two delinquencies or defaults. There were a total of 30 mortgages that were delinquent or in default at the time of the survey. Among the 25 VHO programs whose administrators reported current delinquencies, one each had begun in 1998 and 1999, six had begun in 2000, five had begun in 2001, nine had begun in 2002, two had begun in 2003, and one had begun in 2004. Two responding program administrators said their only purchaser to date was delinquent on his or her mortgage payments at the time of the survey. We did not collect any information on when delinquencies occurred, or on the original purchase date of the delinquencies.

Exhibit 3-8. Reported Foreclosures and Delinquencies

	N	Percent
No foreclosures	198	96
1-2 foreclosures	8	4
No delinquencies or loans in default	178	86
1-2 delinquencies or loans in default	25	12
Do not know if there are delinquencies or loans in default	3	1

Source: Survey of VHO programs (N=206) October–November 2005. Note: Respondents were asked separately about foreclosures and delinquencies or loans in default, so the categories presented above are not mutually exclusive.

3.5 Purchase Transaction Analysis

In this section, we examine the voucher homeownership purchases, using measures typical in home purchase analyses. The analysis is based on financial information collected on a ***sample*** of 98 program purchase transactions across the 10 case study sites, as well as an extract of Public and Indian Housing Information Center (PIC) data on ***all program purchasers*** at the 10 case study sites

(486 purchasers).[32] All exhibits below indicate the data source as either "sample purchases" or "PIC data." For the sample purchases, we collected information on:

- Purchase costs: purchase price, rehabilitation costs, and closing costs;
- Purchase resources: participant savings, grants, forgivable loans, deferred loans, and amortizing loans; and
- Housing costs: PITI payment(s), utilities, repair/replacement and maintenance allowances, the principal and interest on debt for repairs or accessibility modifications, and other allowable housing costs as applicable.[33]

In the first part of this section, we provide aggregate information about sample purchases. The second part of the section focuses on measures of risk (using sample transaction information) and affordability (using PIC data) calculated at the household level.

Overview of Sample of Purchase Transactions

Exhibit 3-9 summarizes, by site, the information collected on the 98 purchase transactions collected during the site visits.[34] For each site, the exhibit shows the financing model(s) that were used, the ranges and averages of purchase prices and closing costs, and the ratio of closing costs to purchase price. Purchaser income is presented in the discussion of payment burdens below.

The average purchase price among the 98 observations was $107,403. Not surprisingly, purchase prices varied considerably across and within sites. Indianapolis had the lowest average purchase price at $68,191, while Waco, Pinellas County and Lorain also had average purchase prices of less than $100,000 (ranging from $72,888 to $97,051). Three sites had average purchase prices between $102,000 and $111,000: Montgomery, Bernalillo, and Fulton Counties. Both New Hampshire and Chicago had average purchase prices around $125,000. Los Angeles stood out with the highest

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32 Note that these data sources have slightly different date ranges. The PIC data was **as of the most recent recertification** as of the time of the extract, and ranged from January 2004 to November 2005. For sample purchasers, the data on costs and sources of the home purchase was **as of the purchase date,** and ranged from June 2001 through July 2005.

33 All information on sample purchases was collected during the site visits. During the analysis phase, we followed up via phone and email with every site to confirm the details of purchase transactions that seemed questionable. In some cases, while sites were able to confirm the numbers they provided, they were unable to provide explanations for the figures we questioned.

34 Site visitors collected data on 10 randomly selected sample purchases from VHO program administrators. In Fulton County, only nine of the 10 requested files included a HUD-1 form (which details the home purchase costs and sources of financing). The site visitor asked for a replacement file, but site staff were unable to provide a file for an additional purchaser that included the HUD-1 form. In addition, one of the nine remaining Fulton County sample purchasers no longer qualified for the voucher program because her income had increased. Abt had previously decided that purchasers no longer participating in the voucher program would not be included in the analysis of sample purchase transactions. As a result, data from only eight sample purchases was collected from Fulton County. Each of the other nine sites provided data for 10 sample purchases, so across the 10 sites, there was a total of 98 sample purchases.

average purchase price, at $175,170, which was more than double the average purchase prices in Indianapolis and Waco. New Hampshire and Los Angeles had the largest ranges in purchase price, while Fulton County and Waco had fairly narrow ranges in purchase prices.

Exhibit 3-9. Purchase Transaction Summary: Purchase Price and Closing Costs (Sample Purchases, N=98)

Program Location	Financing Models	Purchase Price		Closing Costs		Closing Costs: Purchase Price	
		Range	Average	Range	Average	Range	Average
Bernalillo County (NM)	Income & Offset	$78,000 - $150,000	$107,962	$1,175 - $4,481	$2,811	1.0% - 3.4%	2.6%
Chicago (IL)	Income, Offset, 2 Mortgage	$85,600 - $168,000	$125,750	$2,578 - $6,669	$4,129	2.3% - 4.8%	3.4%
Fulton County (GA)	Income	$89,000 - $130,000	$110,260	$2,171 - $4,937	$3,744	2.4% - 4.1%	3.4%
Indianapolis (IN)	Offset	$48,000 - $104,500	$68,191	$139 - $3,366	$2,079	.30% - 5.0%	3.0%
Lorain (OH)	Income	$50,000 - $143,512	$97,051	$2,668 - $13,984	$5,118	2.1% - 13.6%	5.5%
Los Angeles (CA)	Offset	$95,200 - $271,000	$175,170	$1,941 - $16,513	$5,715	1.1% - 8.9%	3.2%
Montgomery County (PA)	Income	$55,000 - $137,000	$102,750	$4,500 - $7,000	$5,848	4.3% - 8.2%	5.9%
New Hampshire (NH)	Income & Offset	$37,600 - $233,500	$124,030	$1,253 - $8,172	$4,336	2.0% - 9.0%	4.2%
Pinellas County (FL)	Income	$30,000 - $141,000	$90,550	$1,523 - $22,119	$6,883	1.6% - 73.7%	13.6%
Waco (TX)	Income	$55,000 - $88,500	$72,888	$1,274 - $7,101	$4,652	1.4% - 12.9%	6.7%
Total / Weighted Average			**$107,403**		**$4,548**		**5.2%**

Across all 98 transactions, closing costs averaged $4,548, or about five percent of the purchase price. Closing costs included fees that varied with the purchase price (origination fees, recording costs, title insurance) and fees that did not vary with the purchase price but nevertheless varied across individuals and sites (fees for application processing, appraisal, credit report, document preparation, and attorneys). Closing costs varied fairly widely across sites, even when variations in purchase price were taken into account. Average closing costs were less than $3,000 in Indianapolis and Bernalillo County and averaged three percent or less of the purchase price. Four sites – Fulton County, Chicago, New Hampshire, and Waco – had average closing costs between $3,700 and $4,700. Among these sites, closing costs ranged from 3.4 percent of the purchase price (Fulton County and Chicago) to 6.7 percent of the purchase price (Waco). Lorain, Los Angeles, and Montgomery County had average closing costs between $5,100 and $5,900. Given the high purchase prices in Los Angeles, that site's average closing costs represented only 3.2 percent of the average purchase price while closing costs for purchasers in Lorain and Montgomery County represented higher percentages of average purchase prices (5.5 percent and 5.9 percent, respectively).

Pinellas County had a substantially higher average than other sites for closing costs: $6,887, which was 13.6 percent of the average purchase price. This high average was driven by two purchasers with exceptionally high closing costs of roughly $17,500 and $22,000 for homes that cost $51,000 and $30,000, respectively. Program staff were not able to explain the reasons for these very high closing costs, but they confirmed that the amounts were correct. Removing these two purchases, the average closing costs among the remaining eight Pinellas County sample purchasers was $3,648, which was 3.5 percent of the average purchase price.

Additional Subsidies for Purchasers

The type, frequency and amount of purchase subsidies varied substantially across the 98 sample purchases and the 10 case study sites. Most sample purchasers received some form of purchase subsidy beyond the HAP, and a number of sample purchasers received significant amounts of subsidies. Grants provided cash assistance that did not need to be paid back and generally were between $2,000 and $5,000. Almost all of these grants were in the form of downpayment assistance, while a couple of grants were principal reductions provided by banks as part of the terms offered through first-time homebuyer programs. Forgivable loans tended to provide more significant amounts of assistance. Most purchasers with such loans who stay in their homes for at least five years will gain thousands of dollars in equity. Deferred loans provided by outside agencies and organizations also offered significant amounts of assistance. Although deferred loans do not increase purchasers' equity, they often provide critical assistance in less affordable housing markets by closing the gap between prices and the amount that purchasers can afford to finance. Typically, a mortgage in the amount of the deferred loan is placed on the property at the time of purchase. The amount owed is reduced annually for several years as long as the homeowner stays in the home.

Grants were the most common type of subsidy. All case study sites but Bernalillo County had at least some purchasers with grants (Exhibit 3-10). Among the 98 sample purchasers, just over half (56) received grants. These grants averaged $5,410 across all sites. The average grant amount was highest in Pinellas County ($12,284), but this average was affected by one purchaser who received a gift of almost $44,000 to help purchase a home. The average grant also was high in New Hampshire at $10,242. Sources of grants included banks/lenders, state HFAs, the city/county, the PHA, FHLB, local non-profit organizations (CDCs, NHS, etc.), and gifts from family members. Sellers provided assistance with closing costs to 17 of the 98 sample purchasers. This phenomenon of sellers subsidizing buyers was common in Lorain and Montgomery County and occurred in Indianapolis and Bernalillo County as well.

Forgivable loans provided moderate to considerable purchase subsidies at eight of the sample sites (Exhibit 3-10). Bernalillo County and Indianapolis had no forgivable loans available. Across all sample sites, forgivable loans averaged $9,636. The typical forgiveness term for these loans was five years. Chicago and Lorain had the largest forgivable loans, with an average over $20,000; however, relatively few of the sample purchasers at those sites used forgivable loans. Forgivable loans were smaller but more widely used in Fulton County. Seven of eight sample purchasers in Fulton County received forgivable loans, averaging $3,526. Sources of forgivable loans included the city/county, local non-profits (CDCs, NHS, etc.), Federal Home Loan Bank (FHLB), and HOME funds.

Exhibit 3-10. Purchase Subsidies at Sample Sites (Sample Purchases, N=98)

Program Location	Grants			Forgivable Loans			Deferred Loans		
	Range	Average	Freq.	Range	Average	Freq.	Range	Average	Freq.
Bernalillo County (NM)	--	--	none	--	--	None	$3,367 - $15,000	$7,591	9
Chicago (IL)	$2,058 - $6,939	$3,750	6	$17,000 - $23,379	$20,190	2	--	--	none
Fulton County (GA)	$1,630 - $2,500	$2,305	6	$3,090 - $4,636	$3,526	7	--	--	none
Indianapolis (IN)	$522 - $8,300	$3,852	10	--	--	None	--	--	none
Lorain (OH)	$2,000 - $16,884	$4,773	9	$21,000	$21,000	1	$9,310	$9,310	1
Los Angeles (CA)	$3,000 - $5,000	$3,667	3	$10,000	$10,000	4	$8,270 - $75,000	$10,000	6
Montgomery County (PA)	$2,500 - $5,261	$3,806	5	$7,309 - $10,500	$8,899	4	--	--	none
New Hampshire (NH)	$5,350 - $24,223	$10,242	7	$10,998 - $16,000	$12,999	3	--	--	none
Pinellas County (FL)	$363 - $43,772	$12,284	4	$1,800 - $11,850	$9,217	3	$4,450 - $7,000	$6,105	5
Waco (TX)	$3,023 - $10,600	$5,718	6	$12,600	$12,600	1	$15,156	$15,156	1
Total / Weighted Average		**$5,410**	56		**$9,636**	25		**$8,332**	22

Note: This table provides ranges, averages, and frequencies for **purchasers who received subsidies**. For example, in Fulton County, six out of the eight sample purchasers received grants. Among these six purchasers, the average grant amount was $2,305 with a range of $1,630 to $2,500. The remaining two purchasers had $0 in grants.

Deferred loans were the least common type of purchase subsidy, with 22 sample purchasers across the 10 sites receiving such loans. Most of the deferred loans were provided by state housing finance agencies, land trusts, FHLB, and city or county community development agencies. These loans averaged $8,332, and the typical term of these loans was 30 years or until the resale or refinance of the property. Five sites – Bernalillo, Lorain, Los Angeles, Pinellas County, and Waco – had deferred loans available. Nine out of 10 sample purchasers in Bernalillo County received deferred loans, averaging $7,591. Six sample purchasers in Los Angeles received deferred loans, averaging $10,000. The organizations providing these deferred loans were responsible for recovering these loans after 30 years or upon refinance or resale using standard procedures for recovering any unpaid liens against a property being sold.

Interest Rates

Because interest rates varied significantly over the time period during which the sample purchases took place (June 2001 – July 2005), we decided to screen for particularly low and high interest rates by comparing the interest rates for purchasers' first-position mortgages with annual prevailing rates.[35]

The interest rates locked in by the sample of program purchasers generally were within reasonable ranges of annual prevailing interest rates (see Exhibit 3-11). At three sites, sample purchases' interest rates were on average lower than the national annual average prevailing rates: Bernalillo at 0.23 percent below the prevailing rate, Los Angeles at 0.08 percent below the prevailing rate, and Montgomery County at 0.04 percent below the prevailing rate. On average, sample purchases' interest rates in Lorain matched prevailing rates almost exactly. The average rates for sample purchases in Chicago, Indianapolis, and Pinellas County were just above the prevailing rates, at 0.13 percent, 0.20 percent, and 0.29 percent above prevailing rates, respectively.

We used the guidelines established by the Home Mortgage Disclosure Act (HMDA) to flag high-rate loans among the sample purchases.[36] As shown in Exhibit 3-11, while 15 sample purchases had interest rates one percentage point or higher than the annual prevailing rate, only four purchasers (two in New Hampshire and two in Waco) had loans with interest rates that are classified as high-cost according to HMDA standards. While there might be a reasonable explanation for a higher interest rate for a particular purchase (such as a poor credit history or the purchase of a manufactured home), the presence of high-cost interest rates at two sites suggests that these programs may have been willing to tolerate high interest rate loans for program purchasers.[37]

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[35] Data on nationwide, annual prevailing interest rates, by calendar year, came from the HUD publication *U.S. Housing Market Conditions*. The prevailing rate for 2005 was calculated using the monthly averages for January through September of 2005.

[36] The Federal Financial Institutions Examination Council's (FFIEC) web site provides a Rate Spread Calculator developed by FFIEC to assist institutions with requirements for reporting Rate Spread data to HMDA from 2004 onwards. The Rate Spread Calculator generates the spread between the Annual Percentage Rate (APR) and the comparable treasury security, utilizing the "Treasury Securities of Comparable Maturity under Regulation C" table, action taken, lock-in date, APR, term (loan maturity), and lien status.

[37] We were unable to obtain additional information on the two high-rate loans in Waco. In New Hampshire, staff explained that higher interest rates were more common for purchasers with disabilities, who represented about one-third of VHO purchasers. Persons with disabilities sometimes received financing through the New Hampshire Community Loan Fund, an organization that assisted very low-income and disabled homebuyers, who often did not qualify for other affordable lending programs. Because the very low incomes of these purchasers posed a greater risk to lenders, interest rates on NHCLF loans typically were higher than those offered by other lenders who worked with VHO participants. VHO program staff (both at the PHA and at a partner organization that works with people with disabilities) worked with purchasers to ensure financing terms are affordable, but acknowledged that increases in property insurance or taxes were difficult for households relying on SSI to absorb.

Exhibit 3-11. Interest Rates on Mortgages (Sample Purchases, N=98)

Program Location	Interest Rate		Avg. Diff. Between Purchasers' Rates and Prevailing Rates	# of Purchasers with Rates at Least 0.5% LOWER than Prevailing Rates	# of Purchasers with Rates at Least 1% HIGHER than Annual Prevailing Rates	# of Purchasers with HMDA "High-Cost" Loans (with Rate Spreads)
	Range	Average				
Bernalillo County (NM)	5.3% - 7.0%	6.0%	-0.23%	4	0	0
Chicago (IL)	5.0% - 7.2%	6.1%	0.13%	1	1	0
Fulton County (GA)	6.0% - 7.0%	6.5%	0.61%	0	1	0
Indianapolis (IN)	5.2% - 7.0%	6.1%	0.20%	0	1	0
Lorain (OH)	5.0% - 7.4%	5.9%	0.01%	3	2	0
Los Angeles (CA)	5.1% - 6.5%	5.9%	-0.08%	2	0	0
Montgomery County (PA)	4.3% - 7.5%	6.4%	-0.04%	3	1	0
New Hampshire (NH)	5.6% - 9.5%	6.8%	0.73%	0	3	2 (4.64, 3.47 rate spreads)
Pinellas County (FL)	5.0% - 8.4%	6.3%	0.29%	1	2	0
Waco (TX)	6.0% - 11.4%	7.8%	1.13%	1	4	2 (5.88, 3.03 rate spreads)
Total / Weighted Average		**6.4%**	**0.27%**	**15**	**15**	**4**

Risk and Affordability

The risk that lenders incur in making mortgage loans is that the purchaser will default on his or her loan payments, triggering a foreclosure. One method lenders use to monitor this risk is to calculate the loan-to-value ratio (LTV) and the amount of cash that the purchaser has invested in the purchase. Generally, the lower the LTV and the higher the cash investment, the more equity the purchaser has in the home and the less likely he or she is to default on the mortgage payment.

Voucher homeownership purchasers generally have very low incomes and not much savings available for a downpayment. Although some purchasers may be able to make downpayments with the assistance of Family Self-Sufficiency (FSS) program escrow accounts, matched savings programs, or grant programs, other purchasers may not have significant assistance available. As a result, many low-income purchasers cannot invest much cash in the property and will by necessity have high LTVs.

The measures related to the LTV used in this analysis are:

- Purchase LTV: This figure is the LTV at the time of purchase. The numerator equals the sum of all forgivable, deferred, and amortized loans. The denominator equals the purchase price as a proxy of the value of the property.[38]
- Potential LTV: This figure is used to illustrate the added benefit of loans that are forgivable, assuming that the property is not resold within a specified period of time, usually five years.[39] The numerator equals the sum of only deferred and amortized loans. The denominator equals the purchase price as a proxy of the value of the property.
- Purchaser Cash Investment: This figure equals the total cash invested in the transaction by the purchaser for downpayment and closing costs out of his/her own savings. This figure does not include grants that the purchaser may have received for downpayment or closing costs, but may include gifts from family members.[40]

In addition to the risk associated with high LTVs, it is advantageous to both lenders and borrowers to ensure that the financing deals are reasonably affordable. It is assumed that affordable monthly payments reduce the likelihood of borrower default and foreclosure. We examine affordability in the voucher homeownership program by calculating participants' monthly housing costs as a proportion of the gross monthly income shown in the PIC data.

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[38] Of the 98 purchase transactions sampled, three purchase transactions included rehabilitation costs ranging in value from $1,500 to $74,951. In these three cases, we added the rehabilitation costs to the purchase price when estimating the value of the property. For the Los Angeles purchaser with $74,951 in rehab costs, we asked the site for feedback to confirm the appropriate split between the purchase price, closing costs and rehab costs. The site was unable to confirm the amount of closing costs versus rehabilitation costs. This estimate of rehab costs was made based on the explanation given by site staff and by the fact that the purchaser received a deferred loan for $75,000 from the local housing department, which allows such an amount only if significant rehab is involved.

[39] Forgivable loans with terms of more than five years were not included in the Potential LTV measure.

[40] The amount of downpayment and closing cost assistance varied by site and by purchaser. Sources of downpayment and closing cost assistance at each site are discussed in the case studies.

The measures of affordability used in this analysis are:

- PITI Burden: This figure represents the PITI payment burden as a percentage of gross monthly household income. The numerator equals the household cash outlay for monthly PITI payments, and the denominator equals gross monthly income.[41]
- Total Housing Cost Burden: This figure represents the burden of all housing costs as a percentage of gross monthly household income. The numerator equals the sum of all housing costs: the household cash outlay for PITI payments, the utility, repair/replacement, and maintenance allowances, the principal and interest on debt for repairs or accessibility modifications (as applicable), and other allowed homeownership expenses.[42] The denominator equals gross monthly income.

Both measures of affordability focus on the burden of the actual cash outlay made by the program participant as a proportion of the participant's gross monthly household income.

LTV and Purchaser Cash Investment

Exhibit 3-12 summarizes measures related to LTV across the 10 case study sites and 98 program purchasers. Lower LTV loans generally are considered less risky because the greater borrower equity provides a cushion against financial shocks. With a low LTV, in the event that a borrower is forced to sell the home, he or she should be able to pay off the mortgage—even if house values have

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41 For purchase transactions using the HAP as income and HAP as offset models, PITI burden is the difference between the PITI and the HAP, divided by gross monthly income. The Total Housing Cost Burden is the difference between total housing costs and the HAP, divided by gross monthly income. For purchase transactions using the two-mortgage model, PITI Burden is the first mortgage PITI divided by gross monthly income. The Total Housing Cost Burden is the participant's total housing costs divided by gross monthly income.

42 While voucher program rules allow PHAs to calculate an allowance that covers routine maintenance as well as an allowance that covers large repairs and replacements for VHO purchasers, a number of sites calculate a single allowance intended to cover a mixture of routine maintenance and larger repairs and replacements. As a result, we aggregated the maintenance and the repair/replacement allowances and refer to them as MRR allowances. Note that three sites (Fulton County, New Hampshire, and Pinellas County) did not estimate or provide **any** MRR allowances. The median MRR allowance among the seven sites that provided MRR allowances was $75 (which matches exactly the median MRR allowance from the 2003 study). To make the burden calculations comparable across sites, we fixed the MRR allowance at $75 for each purchaser at the three sites without MRR allowances and calculated total housing costs accordingly. The average MRR allowance for Pinellas County was not $75. This is because the PIC data had an MRR allowance for several site purchasers, and we decided not to overwrite this existing PIC data to $75. In addition, in cases where the transaction information for purchasers among the seven sites that provided MRR allowances was missing data on allowances, we fixed those purchasers' allowances as the mean MRR allowance for that site. This was done for one purchaser each from Los Angeles and New Hampshire, and for six purchasers from Indianapolis. Besides the variation in the amounts chosen for the MRR allowance, four sites (Chicago, Indianapolis, Lorain, and Montgomery County) basically used the same MRR allowance for every purchaser, while three sites (Bernalillo County, Los Angeles, and New Hampshire) used different MRR allowances for each purchaser.

declined. In addition, borrowers with more equity have more to lose if they default on their mortgage, and so they are considered more likely to meet their mortgage obligations.

Exhibit 3-12. Measures Related to LTV and Purchaser Cash Invested (Sample Purchases, N=98)

Program Location	Purchase LTV		Potential LTV		Purchaser Cash Invested		Purchaser Cash Invested: Total Costs	
	Range	Average	Range	Average	Range	Average	Range	Average
Bernalillo County (NM)	98.5% - 101.9%	100.8%	98.5% - 101.9%	100.8%	$639 - $4,380	$1,527	0.7% - 4.2%	1.4%
Chicago (IL)	85.7% - 110.4%	98.9%	85.7% - 100.0%	95.2%	$1,000 - $23,682	$4,642	0.6% - 16.1%	3.3%
Fulton County (GA)	94.3% - 103.0%	100.5%	91.3% - 100.0%	97.7%	$500 - $7,258	$1,913	0.4% - 6.3%	1.7%
Indianapolis (IN)	88.5% - 100%	95.6%	88.5% - 100%	95.6%	$0 - $2,840	$759	0% - 3.6%	1.0%
Lorain (OH)	95.0% - 100.0%	98.0%	78.6% - 100.0%	96.3%	$0 - $5,736	$3,395	0% - 5.1%	3.5%
Los Angeles (CA)	87.1% - 108.9%	98.4%	87.1% - 103.6%	95.3%	$575 - $37,206	$10,131	0.5% - 13.4%	4.7%
Montgomery County (PA)	66.1% - 109.2%	98.5%	66.1% - 100.0%	95.4%	$0 - $7,900	$2,768	0% - 8.9%	2.7%
New Hampshire (NH)	80.0% - 103.3%	94.5%	62.1% - 101.1%	86.8%	$0 - $11,793	$3,889	0% - 18.1%	3.6%
Pinellas County (FL)	71.6% - 163.1%	107.6%	61.7% - 124.9%	102.3%	$0 - $2,233	$1,199	0% - 2.8%	1.3%
Waco (TX)	91.6% - 106.6%	100.7%	82.0% - 106.6%	98.9%	$0 - $3,540	$697	0% - 3.9%	0.8%
Total / Weighted Average		**99.7%**		**96.7%**		**$3,116**		**2.4%**

Note: In the Potential LTV calculation, the numerator equaled the sum of deferred loans, amortized loans, and forgivable loans with a forgiveness term of more than five years, and the denominator equaled the purchase price as a proxy of the value of the property.

The average Purchase LTV was 99.7 percent across all transactions. This figure varied somewhat by site. Four sites—Bernalillo County, Fulton County, Pinellas County and Waco—had average Purchase LTVs of more than 100 percent. Because the deferred loans could include funds for closing costs, the total loan amount could be higher than the value of the house. New Hampshire was the only site with an average Purchase LTV of below 95 percent.

Clearly, the Purchase LTVs across the case study sites were high. Although it is now not uncommon for low-income purchasers to obtain loans for up to 97 percent of the house's value, the average across the 98 purchase transactions was higher than this level. Only a few of the 98 purchasers included in this analysis were able to make significant downpayments from personal savings, matched savings from individual development accounts (IDAs), grants, or gifts from family members. Of the 98 purchasers, just under half (40) had Purchase LTVs of 100 percent or higher, meaning they had no equity at the time of purchase.

In spite of these high Purchase LTVs, program participants we spoke to in focus groups said they were building assets for the future that they will be able to pass on to their children. Even program participants with an LTV of 100 percent at the time of purchase will have built some equity by the end of the term of the voucher assistance, especially with a low-interest mortgage that permits more rapid equity growth and if the property appreciates in value. However, the modest pace of equity accumulation – assuming that participants do not pay the mortgage ahead of schedule – may not be in line with participants' expectations.

The Potential LTV figure is used to indicate the extent to which purchasers benefit from forgivable loans. The word "potential" is used to note that this benefit will only be realized if purchasers do not leave their property within a certain period of time, usually five years. Potential LTV averaged 96.7 percent across all transactions, compared to 99.7 percent for Purchase LTV. For the two sites (Bernalillo County and Indianapolis) that did not have forgivable loans available to purchasers, Purchase and Potential LTV were equal. Even with forgivable loans included, Pinellas County still had an average Potential LTV greater than 100 percent. Forgivable loans among sample purchasers had the most significant impact in New Hampshire, where forgivable loans produced an average Potential LTV of 86.8 percent, compared with an average Purchase LTV of 94.5 percent.

A third measure of risk is Purchaser Cash Investment, the amount of participants' own savings used to purchase the house, including personal funds used for downpayment and closing costs. One reason to examine Purchaser Cash Investment is that purchasers may be more motivated to make their mortgage payments and protect their investment in the home if they have put a substantial amount of their own earned savings into the purchase. Purchaser cash investment also provides an indication of the amount of savings needed to purchase through the voucher homeownership program. Across our sample of 98 purchase transactions, the average amount of their own cash that purchasers contributed to the purchase was $3,116. Not surprisingly, this figure varied substantially both between and within sites. One purchaser in Chicago and three purchasers in Los Angeles each contributed more than $20,000 of their own resources to their purchases, which inflated the averages for these sites as well as the cross-site average. These purchasers received gifts from their family members or used their accumulated FSS escrow to pay for their home purchases.

Los Angeles had by far the highest average purchaser cash investment at $10,131, followed by Chicago at $4,642 and New Hampshire at $3,889. Three sites (Bernalillo, Fulton, and Pinellas Counties) had average purchaser cash investments of between $1,000 and $2,000. Montgomery County and Lorain fell in the middle, with average cash investments of $2,768 and $3,395, respectively. Two sites (Waco and Indianapolis) had average purchaser cash investments of less than $1,000. Purchaser cash invested as a percentage of total cost varied similarly across sites. Across all sample purchasers, purchaser cash represented an average of 2.4 percent of total purchase costs. Los Angeles purchasers invested from their own resources an average of 4.7 percent of total homeownership costs at the high end, whereas Waco purchasers invested an average of only 0.8 percent of total homeownership costs at the low end.[43]

[43] We found that in some cases the amount purchasers contributed to their downpayment was less than what program staff had indicated was required.

PITI Burden and Total Housing Cost Burden

Another element of risk in these purchase transactions is associated with purchasers' ability to make their monthly mortgage payments, as well as to pay for utilities, routine maintenance, and repairs/replacements, thereby maintaining livability and protecting the value of the property. The greater the share of income required for housing costs, the more vulnerable borrowers are to being unable to make their payments should their incomes decline or their other financial burdens increase. We now examine the financial burdens of mortgage payments and other housing costs. Exhibit 3-13 summarizes PITI Burden and Total Housing Cost Burden by site.[44] The exhibit also provides purchaser income as a reference.

Exhibit 3-13. Income, PITI and Total Housing Cost Burden for Sample Sites (PIC Data, N=486)

Site Name	Income		PITI Burden		Total Housing Cost Burden	
	Range	Average	Range	Average	Range	Average
Bernalillo County (NM)	$6,344 - $59,397	$15,776	0% - 35%	17%	18% - 55%	32%
Chicago (IL)	$2 - $50,583	$22,964	0% - 49%	18%	0% - 100%	35%
Fulton County (GA)	$17,680 - $44,849	$26,302	7% - 27%	16%	24% - 48%	33%
Indianapolis (IN)	$7,008 - $37,593	$19,977	0% - 30%	16%	4% - 56%	40%
Lorain (OH)	$0 - $27,383	$15,527	0% - 81%	19%	0% - 100%	39%
Los Angeles (CA)	$2,222 - $49,467	$17,282	0% - 42%	20%	29% - 97%	55%
Montgomery County (PA)	$8,736 - $75,820	$28,429	0% - 31%	11%	18% - 50%	30%
New Hampshire (NH)	$6,936 - $75,326	$22,392	0% - 63%	24%	22% - 100%	43%
Pinellas County (FL)	$857 - $27,356	$15,709	0% - 45%	18%	27% - 100%	42%
Waco (TX)	$4,080 - $30,084	$17,561	0% - 46%	23%	31% - 60%	39%
Total / Weighted Average		**$20,224**		**18%**		**38%**

Among the 98 purchasers, the average income at the time of purchase was $20,224, but incomes varied across and within sites (Exhibit 3-13). The average purchaser income by site ranged from a low of about $15,700 (Bernalillo and Pinellas Counties) to a high of $28,429 in Montgomery County. The income ranges within sites indicated that there were at least some purchasers at almost all of the sites whose incomes had dipped below the thresholds required at the time of purchase ($10,300 for non-elderly, non-disabled people, and approximately $6,900 for people who are elderly or disabled).

44 For mortgages that required private mortgage insurance (PMI), the PMI payment was included in the PITI payment.

The PITI Burden – defined as the ratio of the purchaser's share of the monthly PITI payment (not including the HAP) to the purchaser's gross monthly income – averaged 18 percent across all purchasers at the 10 sites (Exhibit 3-13). This average was lower than one might have expected, given that limits on PITI burdens were generally in the range of 28 to 33 percent for conventional and FHA loans. However, several of the case study sites were using the HAP as income model and, as discussed in section 3.1, the HAP as income model typically results in lower PITI burdens. In addition, PHAs factor in other housing costs besides PITI (utilities, maintenance, and repair/replacement reserves) when calculating the amount of the HAP and evaluating the maximum loan the purchaser can afford.

Although the average PITI burden seemed reasonable, it varied considerably both across sites and within sites. At the low end of the spectrum, eight percent of all purchasers at the sample sites had a zero percent PITI burden. For such purchases, the HAP was greater than PITI, so they did not contribute personal resources directly to PITI. In such cases, the entire PITI was covered by the HAP, and there was some HAP left over for the participant to use for other homeownership expenses. This situation can arise if the PITI is a relatively small share of the total monthly homeownership expenses and the HAP is relatively high, usually because the purchaser's adjusted income is low or the purchaser has a large family. On the other end of the spectrum, three percent of purchasers had PITI burdens above 40 percent of gross monthly income. Overall, 87 percent of all purchasers in the sample sites had PITI burdens at or below 30 percent of gross monthly income.

Looking at average PITI burdens by site, Montgomery County had the lowest at 11 percent. Six sites had average burdens between 16 and 19 percent. Los Angeles, Waco, and New Hampshire had average PITI burdens of 20, 23, and 24 percent, respectively. Recall that Los Angeles had the highest average purchase price (at $175,170) and that New Hampshire had the third highest average purchase price (at $124,030), so it was not surprising that these two sites had higher PITI burdens. Waco, however, had the second lowest average purchase price (at $72,888) and had an average purchaser income slightly higher than that in Los Angeles (Waco had the fifth lowest average purchaser income among the 10 sites). As a result, Waco purchasers seem to be saddled with a high housing cost burden that should be more affordable given purchaser income.[45] Generally, average PITI burdens were not correlated consistently with either average income or purchase price.

In order to get a more inclusive picture of the financial burden of homeownership for program purchasers, we add other monthly homeownership costs to the PITI payment and look at total housing costs as a proportion of gross monthly income. Adding to the monthly PITI payment estimated utility

[45] Recall that among the 10 sites, Waco sample purchasers had the highest average interest rate at 7.8 percent and the highest average difference between purchasers' interest rates and annual prevailing rates. High interest rates increase the burden on purchasers and decrease their buying power. In addition, Waco closing costs as a percentage of purchase price were highest among the 10 sites at 6.7 percent. Waco's other sources of subsidy were comparable to other programs. Lastly, Waco had the lowest average purchaser cash investment at $697, which was less than one percent of the total purchase costs. Low purchaser cash invested is considered one of the risk factors for delinquency and foreclosure. While it is possible that the 10 Waco purchases randomly chosen for inclusion in our sample were not representative of Waco VHO purchases generally, these measures raised the concern that Waco VHO purchasers carried higher burdens (and thus greater risks of delinquency, default and foreclosure) without reaping comparable benefits.

costs, repair/replacement and maintenance allowances, condominium fees and other allowable housing costs (such as debt incurred to make the unit accessible for a person with disabilities) yields the most complete measure of total housing costs available. Because of the low incomes of program purchasers, the several hundred dollars per month that these non-PITI costs represented often increased considerably the burden of homeownership.

The Total Housing Cost Burden – defined as the ratio of the purchaser's monthly contribution to total housing costs to the purchaser's gross monthly income – averaged 38 percent across all transactions. Across all purchasers at the case study sites, 29 percent had total housing cost burdens below 30 percent of their gross monthly income. The majority of purchasers (56 percent of all purchasers at the sample sites) have total housing cost burdens between 30 and 49 percent of gross monthly income. However, 14 percent of all program purchasers across the sample sites had total housing cost burdens at or above 50 percent of their gross monthly income. Purchasers with high housing cost burdens may find it difficult to pay for maintenance and replacement needs as they arise. Indeed, for very low-income families, even modest payment burdens of 30 percent or more may leave little disposable income to meet such unexpected costs.

Average total housing cost burdens varied somewhat across sites, with four sites having average burdens between 30 and 35 percent (Montgomery County, Bernalillo County, Chicago, and Fulton County). Five sites – Waco, Lorain, Indianapolis, Pinellas County and New Hampshire – had average burdens between 39 and 43 percent. Los Angeles had the highest average total cost burden at 55 percent.

Comparing total housing cost burdens across sites was imprecise, as the sites took different approaches to estimating utility, maintenance, and repair/replacement (MMR) allowances. The extent to which PHA estimates reflected what purchasers actually had to spend was not clear. Exhibit 3-14 presents the range and averages of these components of total housing costs.

The analysis of total housing cost burden suggests that, although PITI burden is the more typical measure of risk in the mortgage industry, other housing costs – such as utilities, maintenance, and repair/replacement costs – can add up to a significant share of the gross monthly income of voucher homeownership program participants. Consistent with the program regulations, most of the case study sites appear to have structured their financing models with this total housing cost in mind. For some purchasers, however, the total housing cost burden may nevertheless be unaffordable, given the limited incomes of many program purchasers. In addition, problems might arise if the actual amount that the homeowner has to spend on utilities, maintenance, and repairs exceeds the PHA's estimated allowance amounts. Note that about one-fifth (19 percent) of all purchasers across the 10 case study sites had $500 or less available each month to cover all other life expenses after total homeownership expenses were subtracted from their gross monthly incomes. The monthly cost of food, transportation, clothing medical care, and incidentals for a family with children could easily exceed such an amount, indicating that a number of program purchasers likely spend their limited resources on immediate needs, reducing their ability to save money for long-term needs, including major home repairs and replacements. Most program purchasers (60 percent) at the case study sites had between $500 and $1,500 available each month after total homeownership expenses were subtracted from their gross monthly incomes, for an average of $1,081 across all purchasers.

3.6 Summary

Financing home purchases in a way that is affordable to low-income purchasers and acceptable to lenders is one of the key challenges of the voucher homeownership program. PHA efforts at building partnerships with lenders and layering non-HAP subsidies have paid off, as more than 4,000 households have purchased homes through the voucher homeownership program as of December 2005 according to PIC data. Among the 3,400 purchases among programs represented by survey respondents, there have been only 10 foreclosures to date. In addition, only 30 purchasers had loans that were delinquent or in default at the time of the survey.

While these results are encouraging, low purchaser incomes and limited sources of non-HAP subsidies present an ongoing challenge to programs and purchasers. PHAs and lenders have to balance the conflicting goals of maximizing purchasers' buying power while minimizing risk to both purchasers and lenders, establishing payment amounts and burdens that are high enough to enable participants to purchase good-quality houses, yet low enough to insure that participants will be able to afford ongoing homeownership costs.

The subsidies provided by the HAP and non-HAP sources provided critical assistance to program purchasers. While lenders have different preferences in terms of how to apply the HAP to mortgage payments, most survey respondents (60 percent) reported that their lenders primarily used the HAP as income financing model. Among the three financing models, the HAP as income approach provides the least buying power, but it also carries the least risk. According to program staff in the case study sites, however, some programs used more than one financing model so that various lender preferences could be accommodated. Note that most surveyed programs (69 percent) had between one and five lender partners they worked with to secure mortgages for VHO purchasers. In terms of non-HAP subsidies, downpayment assistance grants were available in most of the surveyed programs (84 percent). Other sources of assistance – including matched savings accounts, forgivable loans, and deferred loans – were available at roughly half of programs, helping make homeownership affordable.

In our analysis of a sample of 98 purchase transactions collected during the 10 case study site visits, we found an average purchase price of $107,403. Most purchasers had received some financing assistance beyond the HAP. Grants, forgivable loans, and deferred loans averaging $5,000 to nearly $10,000 were used in different combinations across the sites to reduce homeownership costs. With a few exceptions, interest rates were near the prevailing rates at the time of the purchase, indicating that VHO purchasers received competitive rates on their mortgages. Loan-to-value (LTV) ratios were quite high, however, with just under half of the sample purchasers having no equity at the time of purchase. While such high LTV ratios were not unexpected, such values are associated with an increased risk of default and foreclosure, given the low proportions of purchaser resources invested.

According to our analysis of PIC data on all 486 purchasers at the case study sites, the average burdens of PITI payments (principal, interest, taxes and insurance) relative to incomes were reasonable, with site averages ranging from 11 to 24 percent. The average PITI burden across all purchasers was 18 percent. When estimates for utility, maintenance, and repair/replacement allowances and other allowable housing costs were included, average total housing cost burdens at most sites still seemed reasonable, indicating that most PHAs were carefully monitoring affordability. The average total housing cost burden was 38 percent across all 486 purchasers. Almost a third of purchasers (29 percent) had total housing cost burdens below 30 percent of their gross monthly income. The majority of purchasers (56 percent) at the sample sites had total housing cost burdens between 30 and 49 percent of gross monthly income. However, 14 percent of all program purchasers across the sample sites had total housing cost burdens at or above 50 percent of their gross monthly income. Purchasers with high housing cost burdens may find it difficult to pay for maintenance and replacement needs as they arise. Indeed, for very low-income families, even modest payment burdens of 30 percent or more may leave little disposable income to meet such unexpected costs.

Chapter Four
Characteristics of VHO Purchasers and Their Neighborhoods

In this chapter, we provide more in-depth information on the purchasers who have bought homes in the case study sites and on the neighborhoods within which the purchases have occurred.

Purchaser characteristics were derived from publicly available national and PHA-level summary data compiled by HUD, and from an extract of client-level HUD data for all purchasers in the 10 case study sites included in this study. Data on neighborhoods came from the 2000 Decennial Census and from the annual American Community Survey (ACS), also conducted and compiled by the Bureau of the Census. We begin with a summary of the characteristics of VHO participants nationwide and in the case study sites. The remainder of the chapter focuses on the purchasers in the 10 case study sites and the neighborhoods where they bought homes.

4.1 Purchaser Characteristics

In this section, we review the study's findings on the characteristics of purchasers who have bought homes through the VHO program. We begin with a summary of aggregate data on VHO program purchasers compared to all voucher users for the voucher program nationwide and for the case study sites. The remainder of the section reviews findings on purchaser characteristics in the 10 case study sites.

Characteristics of Purchasers Compared to All Voucher Program Participants

To be eligible to purchase a home, VHO program participants who are neither elderly nor disabled must have annual household incomes of at least $10,300 and must have been employed full-time for one year. Because these requirements do not apply to the voucher program generally, we expected that VHO purchaser characteristics would differ from the characteristics of all voucher program participants, at least in income and employment rates. We assembled data on VHO purchasers and all voucher program participants to see if there were differences.

According to summary data for December 2005 assembled by HUD, the demographic characteristics of VHO program purchasers both nationwide and in the case study sites differed somewhat from the characteristics of voucher program participants overall (Exhibit 4-1). VHO purchaser households were larger and more likely to have a female head and children while voucher users overall included more small households headed by elderly persons. Race and ethnicity did not differ markedly but, as expected because of VHO program requirements regarding income and employment, income differences were substantial. The average annual household income for purchasers was almost $20,000, while the average annual income for all voucher users was about $11,400. More than a quarter of VHO program purchasers (28 percent) had annual incomes of more than $25,000, but only 6 percent of all voucher users had incomes exceeding that level. Given VHO program requirements regarding employment, it is also not surprising that the proportion of household income derived from wages was much higher for all VHO program purchasers (70 percent) than all participants (37 percent) in the national voucher program. In the case study sites, the proportion of households with wages was slightly lower for both groups: 63 percent for purchasers and 25 percent for all voucher users.

Exhibit 4-1. Characteristics of Purchasers and Rental Voucher Households

	National Housing Choice Voucher Program		Ten Case Study Sites	
	Purchasers	**All Housing Choice Voucher Participants**	**Purchasers**	**All Housing Choice Voucher Participants**
Number of Households	**3,554**	**1,782,866**	**508**	**95,562**
Household Characteristics				
Percent Non-elderly, Female-Headed	61%	53%	37%	33%
Mean Household Size	3.1	2.6	3.1	2.7
Percent of Households with Children	74%	57%	82%	69%
Percent of Households with Elderly Head	7%	17%	5%	13%
Percent of Households with Disabilities	32%	36%	21%	26%
Race of Household Head				
White Only	59%	52%	51%	45%
Black/African American Only	37%	44%	47%	54%
American Indian/Alaska Native Only	1%	1%	1%	1%
Asian Only	3%	2%	1%	1%
Total	100%	100%	100%	100%
Ethnicity of Household Head				
Hispanic	16%	17%	22%	16%
Non-Hispanic	84%	83%	78%	84%
Total	100%	100%	100%	100%
Gross Household Income				
Under $10,000	16%	55%	18%	54%
$10,000 to $14,999	18%	21%	19%	20%
$15,000 to $19,999	20%	12%	17%	13%
$20,000 to $24,999	17%	6%	20%	7%
$25,000 and over	28%	6%	25%	6%
Total	100%	100%	100%	100%
Mean Household Income	**$19,963**	**$11,394**	**$19,157**	**$11,091**
Percent of Households with Wages	**70%**	**37%**	**63%**	**25%**

Source: HUD Resident Characteristics Reports [http://pic.hud.gov/pic/RCRPublic/rcrmain.asp], December 2005.

Purchaser Characteristics in the Case Study Sites

We obtained an extract of client-level demographic data from HUD for all purchasers in the case study sites (N=486). Across the 10 case study sites, program purchasers were predominantly female-headed households (79 percent). Almost every purchaser (94 percent) in Fulton County, Indianapolis, and Montgomery County fell into this category. While still the majority of purchasers, female-headed households were the least common in Los Angeles (61 percent) and in Bernalillo County (64 percent), which had high rates of people with disabilities among purchasers.[46]

While average household size across the sites was 3.1 persons, the site averages ranged from 2.1 persons in Los Angeles to 3.8 persons in Waco. More than half of all purchasers (54 percent) had three-bedroom vouchers. A quarter (25 percent) of purchasers had one- or two-bedroom vouchers, while 16 percent had four-bedroom vouchers.

Exhibit 4-2. Demographic Characteristics of Program Purchasers at Case Study Sites (PIC Data)

Site Name	N	HHold size		# BRs on Voucher		Percent HHold female	Percent HHold disabled	Percent HHold elderly
		Median	Avg	Median	Avg			
Bernalillo County (NM)	100	3.0	3.0	3.0	2.9	64%	49%	13%
Chicago (IL)	101	3.0	3.3	3.0	3.4	83%	17%	6%
Fulton County (GA)	17	3.0	3.7	3.0	3.3	94%	12%	0%
Indianapolis (IN)	51	3.0	3.1	3.0	3.1	94%	18%	2%
Lorain (OH)	36	3.0	3.0	3.0	2.9	81%	22%	8%
Los Angeles (CA)	28	2.0	2.1	2.0	2.1	61%	79%	14%
Montgomery County (PA)	35	4.0	3.8	3.0	3.1	94%	20%	3%
New Hampshire (NH)	81	3.0	3.0	3.0	2.7	75%	31%	5%
Pinellas County (FL)	19	3.0	3.2	2.0	2.6	84%	37%	0%
Waco (TX)	18	3.0	3.8	3.0	3.1	83%	6%	0%
Total / Weighted average	**486**	**3.0**	**3.1**	**3.0**	**3.0**	**79%**	**30%**	**7%**

Exhibit 4-2 shows that, overall, these VHO programs were serving a substantial number of purchasers with disabilities, although the percentage of purchasers with disabilities varied across sites. Los Angeles had by far the most purchasers with disabilities, at 79 percent, with the next-highest percentages in Bernalillo County (49 percent) and Pinellas County (37 percent). All of these programs had partner organizations that provide homeownership assistance to people with disabilities, which helped their clients with disabilities to achieve homeownership. Waco had the fewest purchasers with disabilities, at 6 percent. Across the case study sites, 30 percent of purchasers had disabilities.

[46] Non-disabled heads of household are predominantly female in the voucher program. Disabled households have higher rates of male heads or single male householders compared to non-disabled households.

As expected, there were relatively few elderly program purchasers (7 percent) across the sample sites. Los Angeles and Bernalillo County had the highest percentages of elderly purchasers, at 14 and 13 percent, respectively.

4.2 Pre- and Post-purchase Neighborhood Characteristics

A home purchase is an important personal investment as well as a financial one. Homebuyers often carefully assess their options in choosing a neighborhood in which to purchase: Is the neighborhood safe? What is the quality of the schools? What services and amenities are available, such as access to transportation, retail services, and recreation facilities? What community institutions serve the neighborhood, such as churches, hospitals, and community centers? In addition, purchasers consider whether their investment will grow in value over time. Neighborhood characteristics are one factor (although certainly not the only one) influencing the likelihood that a home will appreciate.

Focus group participants in many of the sites visited for this study said that good schools, safe neighborhoods, and "space to breathe" were important factors in their decisions about where to live. In Lorain, Bernalillo County, and Indianapolis, moderate home prices and sufficient voucher payment standards allowed purchasers to buy homes in neighborhoods they viewed as desirable. In the higher-cost communities of Los Angeles and Chicago, however, it was more difficult to find houses that were affordable and located in good neighborhoods.

In the 2003 study of voucher homeownership, the research team assessed whether program purchasers were buying homes in neighborhoods that differed from those in which they had previously rented. The analysis was based on address information for a sample of purchase transactions collected during site visits conducted for that study. The addresses were geocoded and linked to 1990 Census data in order to compare neighborhood characteristics in pre- and post-purchase neighborhoods. The results of the 2003 analysis indicated that, overall, participants tended to purchase in neighborhoods with slightly higher incomes, slightly lower poverty rates, and slightly higher home ownership rates than the neighborhoods where they had rented. (About 14 percent of purchasers bought the unit they had been renting, resulting in no change in their neighborhood circumstances.)

For the present study, a similar analysis was undertaken using tract-level 2000 Census data for our sample of 98 purchase transactions. As in the previous study, we used census tract as a proxy for neighborhood. In this section, we compare the post-purchase neighborhood to the pre-purchase neighborhood to explore whether the VHO program participants purchased homes in neighborhoods that are similar to, worse, or better than the neighborhoods in which they had rented with voucher assistance. We begin by looking at how far participants moved when they purchased and then describe the neighborhoods' housing and socioeconomic characteristics.

How far did purchasers move?

The majority of VHO program purchasers in our sample moved to a different neighborhood, purchasing a home at least one mile away from their pre-purchase rental unit. Some 49 percent of purchasers moved to a home in a neighborhood that is between one and five miles from their rental unit, and an additional 22 percent of purchasers moved more than five miles, as shown in Exhibit 4-3. On average, purchasers moved 3.3 miles. When the 7 percent of purchasers who bought the home they had previously rented are excluded, the average distance moved increases to 5.5 miles.

Exhibit 4-3. Distance Between Pre-Purchase and Homeownership Unit[a]

	Number of Home Purchases	Percent of Home Purchases
Distance Moved		
0 miles (purchase in place)	6	7%
0.5 miles or less	11	13%
0.5 to 1 mile	7	8%
1 to 5 miles	41	49%
More than 5 miles	18	22%
Average Distance Moved		**3.3 miles**
Average Distance Moved, Excluding Purchasers who Purchased in Place		**5.5 miles**

Source: Address data provided by participating agencies on the sample of purchasers.

[a] Sample size: 83 (11 pre-purchase addresses and 8 post-purchase addresses could not be categorized).

VHO purchasers are allowed to move to another jurisdiction, but only if the PHA in the destination jurisdiction operates a VHO program. Among the 10 programs we visited, staff in four programs (Indianapolis, Lorain, Los Angeles, and New Hampshire) said they had at least one purchaser who had "ported in" from another jurisdiction. (In the case of NHHFA's statewide program, a prospective purchaser whose PHA does not offer a VHO program may be able to port in to NHHFA's program without actually moving to a different area.) In Bernalillo County, the PHA had special agreements with neighboring PHAs in Albuquerque and the town of Bernalillo that allow Bernalillo County voucher holders to purchase in those communities even though the receiving communities *do not* have VHO programs. Without the agreements, Bernalillo County purchasers would not be able to purchase in Albuquerque or the town of Bernalillo.

What are the characteristics of neighborhood housing?

As was found in the previous study, VHO program purchasers in the sample of purchases examined for this study bought homes in neighborhoods that are generally similar to where they were renting.[47] The differences between pre- and post-purchase neighborhoods appear to be slightly greater in this study than in the previous research. However, the samples sizes are too small to determine whether the differences are statistically significant, either between pre- and post-purchase neighborhoods within either study or in differences observed between the two studies.

47 We were unable to geocode three post-purchase addresses and six pre-purchase addresses among our sample of 98 transactions.

As summarized in Exhibit 4-4, the age of the housing stock in the pre- and post-purchase neighborhoods for the sample of purchases in this study was virtually the same. However, the neighborhood homeownership rate for the current sample was somewhat higher in post-purchase neighborhoods than in pre-purchase neighborhoods (59 versus 53 percent). The homeownership rate in a neighborhood is an indicator of the stability of the neighborhood population, as homeowners move less than renters. A high homeownership rate also indicates that more residents are financially vested in the neighborhood.

In addition, purchasers moved to neighborhoods with lower residential density and with higher proportions of single-family detached homes (56 versus 48 percent) and offsetting lower proportions of multi-family housing (31 versus 40 percent).

Exhibit 4-4. Characteristics of Neighborhood Housing in Pre- and Post-Purchase Neighborhoods[a]

	Pre-purchase Neighborhood	Post-purchase Neighborhood
Housing Vacancy Rate (2000)	**8%**	**7%**
Homeownership Rate (2000)	**53%**	**59%**
Type of Housing in Neighborhood (2000)		
Single-family, detached	48%	56%
Single-family, attached	9%	9%
Multi-family	40%	31%
Trailer, mobile home, or other housing[b]	3%	3%
Year Housing Built (2000)		
1939 or earlier	19%	17%
1940 to 1959	25%	27%
1960 to 1979	32%	33%
1980 to 2000	24%	22%

Source: 2000 Census data.

[a] Sample size is 95 for post-purchase neighborhood, 92 for pre-purchase neighborhood. Neighborhood is defined as the census tract where property is located.

[b] Other housing includes any living quarters that do not fit the previous categories (e.g. houseboats, railcars, campers, vans).

What are the demographic characteristics of neighborhood residents?

High rates of poverty are associated with many social problems, including criminal activity, poor educational institutions, and a lack of political and economic influence to attract resources and investment to poor neighborhoods. In addition, homes in high poverty neighborhoods may appreciate in value more slowly than in higher-income neighborhoods, or not at all.

Among the selected sample of VHO purchasers for whom we have pre- and post-purchase address information, the average rate of poverty was slightly lower in post-purchase neighborhoods (18 percent versus 16 percent), as shown in Exhibit 4-5. The shares of purchasers living in low, moderate, and high poverty neighborhoods changed very little. The largest share of purchasers (69 percent) lived in low poverty neighborhoods both before and after they bought a home.

The racial composition of the neighborhoods where VHO participants rented did not differ substantially from the neighborhoods where they purchased. The proportion of participants who lived in predominantly or majority white neighborhoods increased slightly after purchase, from 60 percent of pre-purchase neighborhoods to 63 percent of post-purchase neighborhoods.

Exhibit 4-5. Characteristics of Neighborhood Residents in Pre- and Post-Purchase Neighborhoods[a]

	Pre-purchase Neighborhood	Post-purchase Neighborhood
Poverty Rate (2000)		
Low poverty (less than 20 percent)	69%	69%
Moderate poverty (20 to 30 percent)	12%	13%
High poverty (more than 30 percent)	20%	18%
Average Poverty Rate (2000)	18%	16%
Single-Female Headed Household with Child(ren) (2000)	**12%**	**12%**
Share of Whites/Non-Whites in Neighborhood (2000)		
Predominately white (>80 percent)	37%	33%
Majority white (50 to 80 percent)	23%	30%
Predominately non-white (>80 percent)	22%	20%
Majority non-white (50 to 80 percent)	19%	18%
Average Percent Non-White (2000)	44%	43%

Source: 2000 Census data (as marked).

[a] Sample size is 95 for post-purchase neighborhood, 92 for pre-purchase neighborhood. Neighborhood is defined as the census tract where the property is located.

Program staff from two of the case study sites said that the voucher homeownership program had been considered a vehicle – implicitly or explicitly – for neighborhood change by program administrators and the larger community. In the case of Lorain, OH, program staff said that businesses, government officials, and community residents initially supported the program in part because they thought purchasers would buy homes in lower-income neighborhoods, potentially bringing stability and economic activity. In Indianapolis, the voucher homeownership program was more explicitly considered an important strategy for responding to a court decree calling on the City of Indianapolis to pursue alternative efforts to increase integration in the suburbs after busing that began in the 1970s was discontinued. The VHO program in particular was seen as a promising vehicle not only to move people to better neighborhoods, but also to provide the stability needed for a long-term integration process.

In Lorain, program staff said that voucher homeownership as a neighborhood change strategy has had limited success so far. Moderate home prices in the metropolitan market meant that VHO program participants could – and did – purchase homes in higher-income neighborhoods instead of in those considered to be in need of stabilization. This was an advantage of the program according to several focus group participants, who said that renters in the voucher program were stigmatized and looked down upon by landlords and neighbors, making it difficult to rent anywhere but in low-income, high crime neighborhoods. The homeownership program, they said, not only allowed them to move to higher-income neighborhoods but also restored a sense of dignity and independence.

In Indianapolis, program staff said it initially appeared that using the VHO program to promote integration in Indianapolis suburbs would be challenging. Most voucher holders (who are primarily black[48]) were not interested in moving to the predominantly white southside suburbs that were targeted for increased integration, staff said. Further, some purchasers who have moved to the suburbs have not felt welcome.[49]

As a result, program staff's expectations about the potential of VHO as an integration strategy in Indianapolis have been scaled back. Interestingly, despite the skepticism of program staff, the 10 purchasers selected for analysis for this study did show a slight tendency to move from majority non-white to majority white neighborhoods. While four purchasers had rented in neighborhoods that were at least 50 percent white, six purchased in majority white neighborhoods. Only one purchaser bought a home in a predominantly non-white neighborhood, compared to four who had rented in predominantly non-white areas. These results should be viewed with caution for several reasons. This small group of purchasers may not be representative of the more than 60 VHO purchasers who have closed in Indianapolis. It is possible that the demographic characteristics of pre- and post-purchase neighborhoods may have changed since the 2000 Census. It may also be that purchasers are moving to majority white urban neighborhoods rather than the suburban neighborhoods targeted by the court decree. Further analysis of the characteristics of pre- and post-purchase neighborhoods for all IHA purchasers would help clarify the extent to which VHO purchasers may be contributing to increased integration, but this expanded analysis was beyond the scope of this study.

4.3 Summary

In this chapter, we have reviewed the study's findings on who is purchasing homes through the VHO program and in what kinds of neighborhoods within the communities that were selected for the case study research. We found that VHO purchasers were primarily female heads of household with children, most of whom (69 percent) were members of minority groups. These 10 programs were serving a substantial proportion of people with disabilities (about one-third of purchasers overall). The VHO program staff elected to promote the program to persons with disabilities and, therefore, recruited partners that specialized in homeownership support for this population.

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[48] According to HUD's Resident Characteristics Reports for the Indianapolis Housing Authority, 86 percent of all voucher holders and 88 percent of VHO program purchasers are black.

[49] During the site visit for this study, the program coordinator was contacted by a purchaser about what appeared to be a racially motivated incident involving verbal harassment of the purchaser's children. In addition, some focus group participants who purchased in predominantly white neighborhoods commented on unfriendly neighbors and a sense of not being welcome in their new neighborhoods. For more detailed discussion of these incidents, see the Indianapolis case study.

Most purchasers moved to a different neighborhood from where they had rented; on average, purchasers moved 3.3 miles away. They generally moved to neighborhoods with more homeowners and more single-family homes than their pre-purchase neighborhoods. Poverty rates were slightly lower in post-purchase neighborhoods, but most purchasers (69 percent) lived in low-poverty neighborhoods both before and after they purchased.

Chapter Five
The Relationship Between Program and Market Factors and the Rate of Home Purchase

In previous chapters, we have described how voucher homeownership programs across the country varied in the program designs and the finance models they used. These analyses are continued in more depth in this section, considering aspects of program design, finance models, and market characteristics together and exploring how some of the factors might be influencing the volume of home purchases achieved across programs.

One of the goals of this study is to assess the extent to which programmatic and housing market factors were associated with larger numbers of home purchases through voucher homeownership programs. This analysis is intended to shed light on the situations where housing vouchers are most likely to be able to support homeownership. It is important to recognize, however, that in many cases PHA administrators are not attempting to maximize the number of voucher holders that purchase homes. There are a number of other program objectives that compete both for available vouchers and staff time, such as serving lower-income renter households, increasing overall lease-up rates, improving program integrity, or supporting other paths to economic self-sufficiency. It may well be that the greatest predictor of the number of home purchases realized is the degree to which PHA managers determine that support for homeownership should be a priority. Nonetheless, the analysis presented in this chapter may still be useful both for HUD and PHAs to identify the circumstances in which voucher homeownership programs have been most successful in supporting home purchases.

After describing the data and the sample of PHAs used for this analysis, we begin with a preliminary analysis of how housing market factors may be associated with the volume of program purchases by comparing market characteristics for PHAs with higher volumes of purchases (more than 40 home purchases) and those with lower volumes (fewer than 40 purchases.) Next, we group PHAs into quartiles based on the number of purchases that had occurred relative to the number of vouchers they managed and the number of years they had been operating a voucher homeownership program. The correlations between the home purchase rate and key housing market measures and program characteristics from survey responses are estimated and presented along with mean program characteristics by home purchase rate quartile. Finally, variables that appear to be associated with higher rates of home purchase are used in a regression analysis to determine whether any of the individual factors continues to show a relationship with purchase rates, after controlling for the other factors for which we have quantitative measures.

5.1 Data Sources

The U.S. 2000 Census and the 2004 American Community Survey (ACS) were our key sources of recent, local data on incomes and housing values. Because 2004 ACS data were only available for counties and urban areas with populations over a certain threshold, we selected 45 voucher homeownership programs that both participated in our survey and had jurisdictions with population sizes above this threshold.[50,51,52] We also used data from HUD Resident Characteristics Reports on overall voucher program size, VHO program purchaser incomes, and local Fair Market Rents (FMRs).

5.2 Market Comparisons

As reported in Chapter Two, some 44 percent of program administrators who responded to our survey said that high housing prices were the primary challenge they face in implementing the voucher homeownership program. In particular, we were interested in examining whether housing market characteristics seemed to influence VHO programs' ability to achieve more purchases. While resources did not permit us to assemble market data for all of the communities represented in the study, this section explores housing market characteristics for a sample of housing markets represented in the survey. In subsequent sections of this chapter, we integrate the program and market data to assess the extent to which these factors seem to contribute to programs' ability to move VHO participants to homeownership.

The volume of purchases achieved by local VHO programs may be a function of a number of factors. In order to learn whether there was a relationship between market characteristics and program size, we examined market and PHA data for a subset of 45 programs that were both represented in our survey of VHO programs and had jurisdictions populous enough to be included in 2004 ACS data. Across the 45 sample programs, the number of purchases to date ranged from 3 to 129, with an average of 32 and a median of 22. Exhibit 5-1 summarizes the market characteristics for sample programs with more than 40 purchases (14 programs) with that of programs with 40 or fewer purchases (31 programs).[53] The 14 programs with more than 40 purchases averaged 68 purchases to date, while the 31 programs with fewer purchases averaged 16 purchases to date. The programs with more purchases to date tended to be located in PHAs with significantly larger voucher programs. The average voucher program size for programs with more than 40 purchases was 9,915 vouchers, more than double that of programs with 40 or fewer purchases to date (4,204 vouchers).

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[50] Because most PHAs have voucher program jurisdictions defined by county (and sometimes by city for urban areas), it was possible to examine market characteristics by jurisdiction for the 45 selected VHO programs. Note that some PHA voucher programs serve only incorporated or unincorporated subsections of counties, however, and that in these cases we reported the county level data as a proxy for jurisdiction data, as it was the best estimate available.

[51] Among the 10 case study sites, three – Fulton County, New Hampshire and Waco – had jurisdictions that were not covered by 2004 ACS data.

[52] Only 44 PHAs are included in the analysis of home purchase rates as one PHA (Louisville, Kentucky) did not have information available on the number of vouchers managed by the PHA.

[53] This examination of market characteristics did not include any VHO programs that had not yet reported one purchase or PHAs that were not currently offering a VHO program. While it was outside the scope of the current study, including such programs and PHAs in a comparison of market characteristics would be informative, providing information on whether certain market characteristics are associated with programs that had not yet achieved their first purchase and with PHAs that have decided not to operate VHO programs.

Exhibit 5-1. Market Characteristics for a Sample of 45 Voucher Homeownership Programs

Market Characteristics	Programs with More Than 40 Purchases (N=14)		Programs with 40 or Fewer Purchases (N=31)	
	Range	Average	Range	Average
Total number of purchases	44 - 129	68	3 - 35	16
Total number of vouchers	1,840 - 40,757	9,915	341 - 16,285	4,204
2004 Median house value	$94,920 - $414,645	$166,887	$59,368 - $487,961	$172,591
2004 Median HHold income	$31,231 - $64,190	$41,954	$28,544 - $120,034	$47,453
2004 Pgm. purchaser income	$14,963 - $30,087	$20,181	$8,088 - $36,408	$20,295
2004 HUD 2-bedroom FMR	$574 - $1,021	$735	$503 - $1,218	$765
Median house value to income	2.3 - 10.2	4.0	0.8 - 9.2	3.6
House value to purchaser inc.	5.3 - 24.2	8.4	3.6 - 16.5	8.4
House value to ann. 2BR FMR	12.7 - 33.8	18.1	7.9 - 35.6	17.7

Note: Data on number of purchases, number of vouchers, program purchaser income and FMRs comes from HUD. Data on median house values and household incomes comes from the ACS.

Among the sample of 45 VHO programs, those with more purchases were located in areas with lower median incomes than programs with fewer purchases to date, with average median household incomes of $41,954 and $47,453, respectively. However, average incomes among *purchasers* at the programs with more purchases were almost identical to those at programs with fewer purchases, with both averages close to $20,200.

Programs with more than 40 purchases were located in areas that encompass a narrower range of median house values than the programs with fewer purchases. Across the sample of 45 VHO programs, those with more purchases had median house values ranging from $94,920 to $414,645 (a span of about $320,000), whereas these values for programs with fewer purchases ranged from $59,368 to $487,961 (a span of about $429,000). Median house values were lower at programs with more purchases. The average median house value was $166,887 among programs with more than 40 purchases, compared to $172,591 for programs with fewer purchases.

We found no real differences between the two groups when examining affordability by comparing local house values to incomes. The average ratio of median house value to median income was similar for both groups. The average ratio of median house value to VHO program purchaser income was identical for the two groups. The ratio of house value to program purchaser income ranged from 3.6 to 24.2 across the 45 sample programs, indicating significant variation in the affordability of markets where voucher holders are purchasing homes (the lower the ratio, the more affordable the housing market).

We then compared the purchasing power of local voucher subsidies between the two groups by looking at HUD's Fair Market Rents (FMRs). FMRs are used in the rental voucher program and are designed to approximate rents at the middle of the market (in most markets, the FMR is set at the 40th percentile of local rents for units that have changed occupants in the past two years). The voucher payment standard is typically set at between 80 and 110 percent of the FMR. The voucher payment standard, which applies to the homeownership program as well as the rental program, thus forms the upper bound on the amount of subsidy (in the form of the Housing Assistance Payment, or HAP) that a program participant can receive. We found almost no difference in the averages and ranges of FMRs across the two groups.

To put the local FMRs in context, we compared annualized FMRs to local house values. If the annualized FMR is high relative to the median house value, housing will be more affordable to program participants, because the amount of subsidy available (based on the FMR) is high relative to the local cost of housing for purchase. By contrast, if the annualized FMR is low relative to the median house value, housing will be less affordable to program participants, because the amount of subsidy available will be low relative to the local cost of housing for purchase. In such markets, additional forms of subsidy, such as below-market interest rate loans and downpayment assistance grants, are likely to play a crucial role in helping VHO participants purchase homes.

The average ratio of median house value to the annualized FMR (for a two bedroom unit) was very similar across the two groups of programs at about 18. Across the 45 sample programs, this ratio ranged from 7.9 to 35.6 (the lower the ratio, the more purchasing power that is provided by the FMR). This range indicated significant variation in the purchasing power provided by local FMRs.

Clearly, there are many factors that influence the number of purchases programs have achieved to date. This analysis has shown that while there are some apparent differences in the markets of sample programs with greater and fewer purchases to date, the variation among and across these groups shows that these relationships are complex. For example, the wide range among the ratios of house value to voucher purchaser income and to the annualized FMR suggests that other factors – such as the financing model used, financing terms, and other available purchase subsidies – may significantly impact affordability and buying power in local VHO programs. In the sections that follow, we use more precise measures to assess the potential role of both market and program features in achieving VHO program purchases.

5.3 Home Purchase Rate of Voucher Homeownership Programs

In evaluating the association between program and housing market characteristics and home purchases, there were two factors that were important to account for. First, we needed to account for the amount of time a voucher homeownership program had been operating. Programs that had been running for just one year would not be expected to have comparable numbers of total home purchases relative to those that had several years to recruit, counsel, and bring participants to the point of purchasing a home. To account for the amount of time the program had been operating, we divided the total number of home purchases by the number of years since the program began to obtain a measure of the number of purchases per year of program operation.[54] In addition, we also needed to account for the overall size of the PHA's voucher program, as PHAs with larger total voucher allocations had more opportunity to enroll participants into the voucher homeownership program and therefore more opportunity to help participants purchase homes. To account for this, we divided the number of purchases per year by the number of vouchers managed by the PHA. The resulting measure is the number of annual home purchases for each 1,000 vouchers managed by the PHA.[55]

Exhibit 5-2 shows each of the 44 sites for which we had complete data ranked by their yearly purchases per 1,000 vouchers, along with the number of total purchases and purchases per year.[56] The sites were divided into quartiles, with those in the first quartile the most successful according to this measure. The first quartile programs had the highest averages for total purchases and purchases per year, as well as the highest numbers of yearly purchases per 1,000 vouchers. However, several PHAs that were not ranked in the first quartile also had very high levels of purchases. For example, Chicago had the highest number of total purchases and purchases per year among all 44 sites, but with one of the largest voucher allocations, Chicago ranks only in the third quartile of home purchase rates. Once Chicago's purchases were adjusted by the overall size of the voucher program, Chicago had only 1.36 purchases per year for every 1,000 vouchers issued. In contrast, those in the first quartile had from 3.44 to 15.5 purchases per year for every 1,000 vouchers issued. Sacramento and Columbus are two other sites that illustrate how large purchase numbers did not necessarily equate with high home purchase rates.

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[54] In order to capture the broadest measure of purchases achieved through these programs we chose to use the total number of home purchases rather than the number that purchased with a voucher. Participants who bought a home without a voucher include those who completed financial and home purchase counseling through the program but had income increases that made it possible for them to purchase on their own.

[55] Given the relatively small number of home purchases relative to the number of vouchers under management, the ratio is expressed as the number of purchases per 1,000 vouchers managed by the PHA so the resulting ratio is not a very small fraction.

[56] One of the 45 programs used in the earlier analysis had to be dropped because of missing data, leaving a sample of 44.

Exhibit 5-2. 45 Sites with Market Data, Ranked by Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers)

PHA	State	Total Voucher Allocation	Total Number of Purchases	Number of Purchases with a Voucher	Years Voucher Homeownership Program in Operation	Yearly Total Purchases	Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers)
First Quartile							
Bernalillo County Housing Department	NM	1,840	114	114	4	28.5	15.49
Lorain Metropolitan Housing Authority	OH	2,543	48	43	4	12.0	4.72
Belmont Shelter Corporation	NY	3,957	54	27	3	18.0	4.55
Housing Authority of the City of El Paso	TX	4,488	35	35	2	17.5	3.90
Indianapolis Housing Agency	IN	6,244	72	64	3	24.0	3.84
Area Housing Authority of the County of Ventura	CA	2,405	18	7	2	9.0	3.74
Housing Authority of the City of Milwaukee	WI	4,566	84	84	5	16.8	3.68
Lucas Metropolitan Housing Authority	OH	3,322	47	47	4	11.8	3.54
Dupage Housing Authority	IL	2,506	35	35	4	8.8	3.49
Housing Authority of Pittsburgh	PA	5,218	18	18	1	18.0	3.45
Metropolitan Development and Housing Agency	TN	5,170	89	50	5	17.8	3.44
First Quartile Averages		**3,842**	**55.8**	**47.6**	**3.4**	**16.6**	**4.89**
Second Quartile							
Montgomery County Housing Authority	PA	2,585	44	44	5	8.8	3.40
The Housing Authority of Columbus, Georgia	GA	1,788	12	12	2	6.0	3.36
Portland Housing Authority	ME	1,689	21	18	4	5.3	3.11
Franklin County Regional Housing & Redevelopment Authority	MA	579	4	4	3	1.3	2.30
Housing Commission of Anne Arundel County	MD	1,608	11	9	3	3.7	2.28
Kansas City, Kansas Housing Authority	KS	878	6	6	3	2.0	2.28

Exhibit 5-2. 45 Sites with Market Data, Ranked by Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers) *(Continued)*

PHA	State	Total Voucher Allocation	Total Number of Purchases	Number of Purchases with a Voucher	Years Voucher Homeownership Program in Operation	Yearly Total Purchases	Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers)
Housing Authority of the County of San Joaquin	CA	4,362	29	17	3	9.7	2.22
Jacksonville Housing Authority	FL	5,870	52	19	4	13.0	2.21
Buffalo Municipal Housing Authority	NY	341	3	3	4	0.8	2.20
New Castle County Housing Authority	DE	1,633	7	5	2	3.5	2.14
Pinellas County Housing Authority	FL	2,529	27	25	5	5.4	2.14
Second Quartile Averages		**2,169**	**19.6**	**14.7**	**3.5**	**5.7**	**2.51**
Third Quartile							
Fairfax County Redevelopment and Housing Authority	VA	3,246	26	24	4	6.5	2.00
Oklahoma City Housing Authority	OK	3,436	27	21	4	6.8	1.96
Sacramento City and County Housing and Redevelopment Agency	CA	10,960	59	59	3	19.7	1.79
Columbus Metropolitan Housing Authority	OH	9,571	51	47	3	17.0	1.78
Allegheny County Housing Authority	PA	5,529	26	26	3	8.7	1.57
Pierce County Housing Authority	WA	2,400	17	11	5	3.4	1.42
Columbia Housing Authority	SC	2,828	20	15	5	4.0	1.41
Chicago Housing Authority	IL	31,505	129	129	3	43.0	1.36
Hamilton County Public Housing Authority	OH	2,698	11	7	3	3.7	1.36
Memphis Housing Authority	TN	4,924	12	12	2	6.0	1.22
Cincinnati Metropolitan Housing Authority	OH	7,075	22	17	3	7.3	1.04
Third Quartile Averages		**7,652**	**36.4**	**33.5**	**3.5**	**10.5**	**1.54**

Exhibit 5-2. 45 Sites with Market Data, Ranked by Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers) ***(Continued)***

PHA	State	Total Voucher Allocation	Total Number of Purchases	Number of Purchases with a Voucher	Years Voucher Homeownership Program in Operation	Yearly Total Purchases	Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers)
Fourth Quartile							
Gloucester County Housing Authority	NJ	1,645	5	5	3	1.7	1.01
The Housing Authority of the City of Dallas, TX	TX	16,285	16	16	1	16.0	0.98
St. Louis Housing Authority	MO	5,018	8	8	2	4.0	0.80
Housing Authority of the City of Las Vegas	NV	3,832	17	12	6	2.8	0.74
Omaha Housing Authority	NE	3,901	11	11	4	2.8	0.70
Cuyahoga Metropolitan Housing Authority	OH	13,355	28	28	3	9.3	0.70
Tulsa Housing Authority	OK	4,223	6	6	3	2.0	0.47
Fort Worth Housing Authority	TX	4,894	11	9	8	1.4	0.28
Housing Authority of the City of Los Angeles	CA	40,757	44	44	4	11.0	0.27
Housing Authority of the County of DeKalb, Georgia	GA	4,904	5	5	4	1.3	0.25
Housing Authority of the County of San Diego	CA	10,099	3	2	3	1.0	0.10
Fourth Quartile Averages		**9,901.2**	**14.0**	**13.3**	**3.7**	**3.8**	**0.57**
Overall Averages		**5,891**	**31.5**	**27.3**	**3.5**	**9.0**	**2.38**

5.4 Variation in Program and Market Characteristics by Home Purchase Rates

Having divided the 44 voucher homeownership programs into quartiles by their total yearly purchases per 1,000 vouchers allocated, we next explore how programs in different quartiles of home purchase rates differ in program and market characteristics. Though any differences found cannot be taken as evidence of a causal relationship with home purchase rates, the results provide some insights into whether certain program or market characteristics tend to be associated with higher purchase rates. There are a number of programmatic and market characteristics that would be expected to influence the home purchase rate experienced by different voucher homeownership programs. These factors can be grouped into the following six categories:

- The PHA level of effort in promoting the use of vouchers for homeownership;
- The intensity and quality of counseling services provided;
- Program eligibility and enrollment preferences;
- The characteristics of voucher holders, including their financial circumstances and their motivation to buy a home;
- Housing market conditions; and
- Financing models used and the availability of additional subsidies.

In the sections that follow, the hypothesized relationship between each of these broad factors and the rate of home purchase are discussed, and the specific measures available to quantify each of these dimensions are introduced. Exhibit 5-3 presents means of variables within each category both for all 44 PHAs and for each quartile, as well as the correlation of each variable with the home purchase rate. The correlation shown is the Pearson Correlation Coefficient, which ranges from minus one to positive one. A correlation coefficient of zero indicates that the two variables are not at all associated, while correlations farther from zero indicate a stronger association. Values of positive or negative one indicate that the variables are perfectly correlated. The statistical significance of the estimated correlation is given as the probability that the actual correlation is different from zero. Probabilities greater than 90 percent generally are accepted as statistically significant.

In many cases, the measures available to quantify program and market characteristics are only rough approximations of the characteristic that we ideally would like to capture. In addition, the number of PHAs included in this analysis is fairly small. As a result, our assessment of the association between these factors and home purchase rates is at best suggestive of which program and market characteristics are most strongly associated with more home purchases.

Exhibit 5-3. Correlation Coefficients and Means of Program and Market Characteristics by Annual Home Purchase Rate – Subset of 44 PHAs

	Correlation with Home Purchase Rate (Prob. ≠ 0)	Ratio of Closings per Year to Total Voucher Allocation (per 1,000 Vouchers)				
		All 45 PHAs	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
PHA Level of Effort						
Staff Hours per Voucher	0.22	10.2	12.5	11.8	6.8	9.6
Number of Active Participants (Per year, per 1,000 Vouchers)	0.19	7.4	17.1	6.3	3.7	2.3
Voucher Holders Counseled (Per year, per 1,000 Vouchers)	**0.33****	10.4	17.6	13.0	3.8	7.1
Quality of Counseling (Percent of PHAs)						
PHAs Provides Some Counseling	-0.08	41%	36%	36%	64%	27%
No Individual Counseling Provided	-0.00	14%	9%	18%	18%	9%
Program Eligibility and Preferences (Percent of PHAs)						
Income and Employment Requirements	**-0.26***	23%	9%	18%	27%	36%
Credit, Savings, or Debt Free Requirements	-0.10	14%	9%	9%	18%	18%
FSS Required	-0.09	30%	27%	36%	27%	27%
Preference to the Disabled	-0.10	23%	36%	9%	9%	36%
Characteristics of Voucher Holders (Average)						
Purchaser Income	-0.18	$20,352	$20,455	$17,698	$20,651	$22,604
Purchaser Income as Percent of Area Median Income	-0.15	47%	48%	39%	49%	51%
Purchaser Income as percent of Area Median House Value	-0.06	14%	16%	12%	14%	16%
Market Conditions (Average)						
Median House Value	-0.10	$171,983	$159,159	$171,410	$169,829	$187,534
Annualized 2 Bedroom Fair Market Rent	-0.18	$9,116	$8,572	$8,923	$8,950	$10,019
Annual FMR as a Percent of Median House Value	-0.03	6.3%	6.6%	6.0%	5.9%	6.7%
Financing Models and Availability of Subsidies (Share of PHAs, except where noted)						
HAP as Income Financing Model	-0.09	61%	45%	82%	64%	55%
Downpayment Assistance Grants Available	0.08	93%	100%	91%	91%	91%
Below Market or Forgivable Second Mortgages Available	0.15	55%	64%	64%	55%	64%
IDAs or Other Matched Savings Accounts Available	-0.16	61%	64%	64%	36%	55%
Grant or Below Market Loan for Rehabilitation Available	-0.03	25%	27%	36%	18%	18%
Average Number of Types of Additional Subsidies Available	0.00	2.3	2.5	2.5	2.0	2.3
Adjustable Rate Mortgages Are Not Allowed	0.07	82%	82%	82%	91%	73%

Correlation coefficients that are statistically significant are shown in bold. * indicates statistical significance at the p>=.10 level, ** indicates statistical significance at the p>=.05 level, and *** indicates statistical significance at the p>=.01 level.

PHA Level of Effort

One of the most important determinants of the rate of home purchase experienced by a PHA would be expected to be the level of effort devoted by the PHA to its voucher homeownership program. As described in Chapter Two, many – although not all – PHAs set targets for the number of vouchers that are expected to be used to buy a home. The development of these targets was usually driven in part by program planners' assessments of how many potential purchasers could be assisted, given available program staffing. Available staffing levels would affect how outreach was conducted to inform voucher holders of the homeownership program, how many voucher holders could be provided with required counseling and other supportive services, and how well the PHA could develop relationships with lenders and real estate agents. It would be expected that PHAs that invested more resources and effort into promoting and developing the homeownership component of their voucher program would have had more home purchases, all else equal.

Three measures related to a PHA's level of effort in promoting homeownership were derived, based on data collected through the PHA survey. The most direct measure of a PHA's level of effort is the average weekly hours spent by PHA staff on the voucher homeownership program, for every 1,000 vouchers allocated. As shown in Exhibit 5-3, there does appear to be some association between the amount of staff time spent on the program and the number of homebuyers, with a correlation coefficient of 0.22. Voucher homeownership programs in the first quartile of home purchase rate devoted an average of 12.5 staff hours per week per 1,000 vouchers to the program, compared to the third and fourth quartile programs, which averaged 6.8 hours and 9.6 weekly staff hours. Staff hours of partner organizations were not included in these averages, so the reported number of staff hours is understated for PHAs that relied on partners to deliver services.

Another available measure of a PHA's level of effort is the proportion of voucher holders that were active participants in the homeownership program at the time of the PHA survey. "Active participants" includes voucher holders who were either in the process of being counseled or had completed counseling and were searching for a home at the time of the survey. It does not include voucher holders who were counseled at some point but had dropped out of the program by the time of the survey, nor does it include participants who succeeded in buying a home. This measure is intended to reflect how successful the PHA's efforts had been in recruiting participants for the homeownership program. Of course, the proportion of active participants likely also reflects the degree to which the PHA's voucher holders were attracted to homeownership and felt that this was an attainable goal. As a result, this measure captures not only the PHA's level of effort in running the program, but also participants' demand for these services. As shown in Exhibit 5-3, the correlation coefficient indicates a degree of correlation with the home purchase rate similar to that of staff hours spent, with a coefficient of 0.19. A comparison of mean values across quartiles shows a fairly clear association between the proportion of voucher holders participating in the program and the rate of home purchase. Those in the first and second quartiles had higher proportions of active participants than both the overall mean and the bottom two quartiles.

The last measure related to the PHA's level of effort is the proportion of voucher holders that completed homeownership counseling for each year the PHA had been running a program. This measure is closely related to the number of active participants, except that it also includes both program dropouts and successful homebuyers. As with the measure of active program participants, the proportion of voucher holders completing counseling captures not only the PHA's level of effort in shepherding participants through the process, but also participants' motivation to complete the counseling process. As shown in Exhibit 5-3, there is a fairly close association between the proportion of voucher holders completing counseling and the home purchase rate, with a correlation coefficient of 0.33 that is statistically significant at the 97-percent level. The pattern across quartiles is also very clear, with PHAs in the first quartile having completed pre-purchase counseling for a much higher proportion of total voucher holders than those in the lower quartiles. The numbers decrease with each quartile, with those in the first quartile having counseled 17.09 participants per year, per 1,000 vouchers, and those in the fourth quartile counseling only 2.32 participants per 1,000 vouchers.

Summarizing the findings for each of these three measures of PHA level of effort, there is a clear tendency for voucher homeownership programs with higher home purchase rates to have devoted more staff hours to the program, to have had a higher proportion of voucher holders active in the program, and to have had a greater share of voucher holders that have completed counseling. It is not particularly surprising that greater staff effort and higher rates of program participation would be associated with higher purchase rates. The main benefit of these measures is to permit the subsequent multivariate analysis to isolate the association of other program and market features with the home purchase rate while controlling for a PHA's level of effort.

Intensity and Quality of Counseling

While all voucher homeownership programs must provide pre-purchase counseling for participants, specific choices about the nature of counseling provided, including the intensity of the counseling in terms of subjects covered, the amount of time spent in counseling, who provides the counseling, and the format used (group versus individual sessions) are left to the discretion of the PHA. Unfortunately, only very limited measures are available from the survey data to assess the potential intensity of the counseling provided. While the PHA survey asked about the range of topics covered by counseling (as shown in Exhibit 2-13), the vast majority of programs covered most of the topics listed, so the results provide little indication of how counseling efforts varied across PHAs.[57] The survey also did not gather any information on the typical amount of time that participants spent in counseling.

There are also no measures of counseling quality – such as the level of experience or training of counselors or their effectiveness. One characteristic of the counseling that might be related to quality is whether the PHA was directly involved in any aspect of the counseling. It may be that because PHA staff know the individual participants – as well as the voucher homeownership program – better than partner organizations, PHA involvement could aid in the success of participants. On the other hand, counseling partners are likely to have more expertise in financial education and homeownership counseling, making it beneficial for participants to receive counseling from partner agencies. As shown in Exhibit 5-3, there does not appear to be much association between whether a PHA provided some counseling and the rate of home purchase, with a correlation coefficient of only –0.08, indicating only a very slight tendency for PHAs that provided counseling themselves to have lower purchase rates. This relationship is somewhat evident across home purchase rate quartiles as PHAs in the first and second quartiles had slightly below average shares providing counseling.

[57] More than 93 percent of all programs report covering budgeting and money management, credit counseling, home financing, credit repair, fair lending, and how to find a home. In addition, of those that did not report covering these topics, many simply reported they did not know as other agencies provide the counseling.

Another characteristic of counseling that might be indicative of its quality is whether participants received any individual counseling, as opposed to only group counseling sessions. Individual counseling tailored to specific participants' needs would be expected to be more effective. As shown in Exhibit 5-3, only a small share of PHAs (14 percent) did not provide individual counseling. The correlation coefficient indicates that there is essentially no association between home purchase rates and the use of individual counseling. Comparing averages across quartiles, PHAs in the first quartile of home purchase rates had fewer PHAs that did not provide individual counseling, although this was also true of PHAs in the fourth quartile.

In short, while the intensity and quality of housing counseling provided may affect the rate of home purchase, few quantitative measures were available in this study to characterize the counseling provided across PHAs. The available measures are related to the PHAs' role in providing the counseling and the use of individual counseling, but neither of these characteristics appears to have had much of a relationship with the rate of home purchase.

Program Eligibility and Preferences

Programs with eligibility requirements above the HUD minimum for income and employment, as well as other criteria such as credit record, savings, or debt, would be expected to have lower home purchase rates, as these program may exclude some participants who could qualify for mortgage financing. In general, as hypothesized, purchase rates were lower among PHAs with stricter eligibility requirements. This pattern is most evident when PHAs imposed additional income and employment requirements, as the correlation coefficient with the home purchase rate is –0.26 and is statistically significant at the 91-percent level. Comparing the average percentages of PHAs that had these stricter requirements by home purchase rate quartiles, we find that the third and fourth quartile programs had the highest proportion of programs with additional eligibility requirements, with 36 percent of fourth quartile programs having had additional income or employment requirements, compared to only 9 percent of first quartile programs. The imposition of additional credit, savings, and debt-related requirements are also negatively associated with the home purchase rate, but the relationship is not nearly as strong, with a correlation coefficient of –0.10).

These associations are consistent with the hypothesis that allowing more voucher holders to be eligible to participate in the homeownership program may increase the number of home purchases. These stricter eligibility requirements likely reflect concerns by program planners that looser eligibility standards come at the expense of a greater risk of homebuyers being unable to meet their mortgage obligations if they have lower incomes, limited savings, poor credit, or a weak employment history.[58] Balancing this risk against the goal achieving homeownership is a feature of all low-income homeownership programs.

Another program characteristic that might be related to home purchase rates is whether programs give preference to households with a person with disabilities. It could be hypothesized that these programs

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58 For a review of the literature examining the importance of income, downpayment amounts, debt levels, and credit history in predicting mortgage default see Roberto G. Quercia and Michael A. Stegman, "Residential Mortgage Default: A Review of the Literature," *Journal of Housing Research* 3(2):341-379, 1992.

would have lower home purchase rates if participants with disabilities have needs for specific housing features and so have a more difficult time finding suitable housing to purchase. The correlation coefficient among our sample of PHAs is fairly low, at –0.10. There is also little discernable association by home purchase rate quartile, as both the highest and lowest quartiles had roughly 36 percent of programs giving preferential access to households with a person with disabilities.

Finally, we also examined whether there is an association between home purchase rates and whether programs restricted participation to those voucher holders in Family Self Sufficiency programs. It might be expected that such a limitation would reduce the home purchase rate by restricting participation by other voucher holders. However, there is little association between program rules restricting eligibility to Family Self Sufficiency participants and the home purchase rate, with a correlation coefficient of –0.09. Comparing the average share of PHAs with these requirements across home purchase rate quartiles confirms this weak association, as three of the four quartiles had identical shares of PHAs that required FSS participation.

Characteristics of Voucher Holders

Another factor that may contribute to differences in home purchase rates across PHAs is differences in the characteristics of the PHA's voucher holders. PHAs with voucher holders with higher incomes, greater savings, better credit histories, more consistent employment histories, and greater interest in pursuing homeownership would be expected to have had higher home purchase rates. Unfortunately, information on the characteristics of participants in the voucher homeownership program is essentially limited to income level.[59] Exhibit 5-3 presents the average incomes of program participants for the four quartiles of PHAs by home purchase rate. The correlation between purchaser income levels and the home purchase rate is actually negative 0.18, contrary to our expectations. Comparing average incomes across home purchase quartiles illustrates the weakness of this association, as the first and third quartile had similar average incomes.

Two other measures of program participants' income were estimated to account for differences across markets in the costs of living and housing costs. The first measure is the average participant income as a percent of area median income. We would hypothesize that home purchase rates would be higher in areas where participant incomes were closer to the income levels of all households in the market area. However, the negative correlation coefficient (-0.15) indicates that home purchase rates were actually lower in areas where voucher homebuyers had incomes closer to the market median. As evidence of this weak association, there was little variation in this measure across the four quartiles of PHA purchase rates. The second quartile had the lowest average incomes relative to area median incomes at 39 percent, while the other three quartiles are all between 48 and 51 percent.

Another measure of participant incomes is as a percent of area median house prices. One possible explanation for the negative correlation between participant incomes and the home purchase rate is that incomes tended to be higher in areas with higher housing costs, so that the benefits of higher

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[59] Program participation rates discussed earlier may actually provide an indication of the motivation of voucher holders to pursue homeownership as well as their own assessment of the feasibility of their qualifying for a mortgage—although their own assessments of their qualifications may not be accurate.

incomes were more than offset by the barrier imposed by high costs.[60] Measuring income as a percent of area median house prices is one means of taking this factor into account. As with the previous measure, we would hypothesize that home purchase rates would be higher among PHAs where participant incomes are higher relative to area house prices. But, once again, contrary to our expectations, the correlation is negative and the association is fairly weak with a coefficient of –0.06. The average value of this variable across the home purchase rate quartiles illustrates this weak association as the first, third, and fourth quartiles all had similar values.

While the characteristics of a PHA's voucher holders may be an important factor in the home purchase rate, there is unfortunately little available information on participant characteristics to evaluate this issue. Information on the average incomes of home purchasers is available, but contrary to expectations it is negatively associated with home purchase rates and generally does not have a strong association with variations in the home purchase rate across PHAs. Using income alone also does not take into account the additional subsidies that may be available to VHO purchasers to help make homeownership more affordable, and information on subsidy amounts was only available for 7 of 10 case study sites that were included in the market analysis.

Housing Market Conditions

Earlier in this chapter, we reviewed market characteristics in communities served by PHAs with higher volumes of purchases compared to those with lower volumes of home purchases. In this section, we extend that analysis by looking at home purchase rates rather than the total volume of purchases.

We would hypothesize that the housing market context in which voucher homeownership programs operated would influence the home purchase rate. We would expect that higher home prices would have made it more difficult for low-income voucher holders to meet the income and downpayment requirements needed to buy a home, resulting in lower purchase rates. Market rent levels are also important to consider, for two reasons. First, voucher payment standards are linked to market rents through the estimated fair market rent (FMR). Higher FMRs will generally mean higher payment standards, and thus larger subsidy amounts available to voucher holders seeking to purchase a home. Second, the rent levels relative to house prices also affect the financial attractiveness of homeownership. All else equal, when rents are low relative to home prices, renting will be more financially attractive. Conversely, as rents rise relative to home prices, owning becomes more financially beneficial. Considering both of these aspects of rent levels (i.e., the value of the subsidy and the attractiveness of homeownership), we would expect that higher rent levels relative to house values would increase the home purchase rate.

Exhibit 5-3 presents information on the average median house value, FMR, and ratio of FMR to median house value for each of the four quartiles of home purchase rates. The correlation between house values and home purchase rates is positive, as hypothesized, although the association is not particularly strong, with a correlation coefficient of -0.10. However, there is a fairly clear pattern of home prices and of purchase rates across the four home purchase rate quartiles, e.g., PHAs with the

[60] The correlation coefficient between purchaser income levels and median house prices is 0.58 and is highly statistically significant.

lowest home purchase rates in the fourth quartile had the highest average median house value at over $187,000, whereas PHAs with the highest home purchase rates in the first quartile had the lowest median house prices at $159,159.

Another market factor that may contribute to the observed success rates is the FMR. PHAs set their own payment standards for their vouchers, but these standards are usually between 80 and 110 percent of the FMR. Thus, areas with higher FMRs generally will have higher payment standards and so higher levels of subsidy to support homeownership. Exhibit 5-3 shows the average FMR for each of the four quartiles of PHAs by home purchase rate. Contrary to our hypothesis, lower FMRs are associated with higher purchase rates, with a correlation coefficient of –0.18. Examining differences in average FMRs across the home purchase rate quartiles, the first through the third quartiles had similar averages, while the fourth quartile had a much higher average FMR.

The fact that FMRs are negatively correlated with the home purchase rate likely reflects the fact that rent levels are themselves highly correlated with house prices, so that areas with high FMRs also had high home prices. In fact, the correlation coefficient between FMRs and house prices is 0.87. For this reason, a better measure of FMRs may be as a percent of area median house prices, to gauge both the value of voucher subsidies relative to house prices and the financial appeal of homeownership. However, there is very little association between this ratio and the home purchase rate, as shown by the correlation coefficient of –0.03.

The fact that the median house price has the expected relationship with the home purchase rate, while the ratio of FMR to house prices has essentially no association suggests that the level of house prices may be a somewhat more important factor in determining home purchase rates than rent levels. One explanation for this result may be that even with greater subsidies afforded by higher payment standards, the relatively low incomes of voucher holders are not sufficient to afford to buy a home in these markets. A further barrier imposed by higher home prices is correspondingly higher requirements for downpayments, which may be difficult for voucher holders to meet.

Financing Models and Availability of Other Subsidies

The financing models used, other subsidies available to support homeownership, and the ability of participants to use adjustable rate mortgages all would be expected to play an important role in whether participants are able to purchase homes. As described in Chapter Four, the three most common approaches used to determine how to apply the housing assistance payment (HAP) toward the mortgage used to purchase the home were: to use the HAP as a direct offset to the mortgage payment; to use the HAP as payment for a second mortgage; or to count the HAP as income in determining the amount that can be borrowed.

Considering the HAP as a direct offset to the mortgage payment or as fully applied to a second mortgage both offer participants more purchasing power than considering the HAP as income. Thus, we would hypothesize that voucher homeownership programs using the HAP as income model would have had lower home purchase rates. As shown in Exhibit 5-3, 61 percent of the 44 programs primarily used the HAP as income model, while the other 39 percent mostly used one of the other two models. As expected, there is a negative correlation between using the HAP as income model and the home purchase rate, but the association is not strong (a correlation coefficient of –0.09). This weak association is evident in the average share of PHAs using the HAP as income model across the home purchase quartiles. The first quartile programs were least likely to use the HAP as income model as their primary approach, but the second quartile had by far the highest share of programs using the HAP as income model.

With regard to the availability of other subsidies, homebuyers may benefit from a range of local efforts to support low-income homeownership, including downpayment assistance grants, below-market and forgivable loans, individual development accounts or other matched savings accounts, and grants or below-market loans for rehabilitation. Ideally, we would like to have measures of both the prevalence of these programs and the typical amounts of assistance available for individual buyers. Variations in the amount of assistance available may be particularly important in high-cost markets, where greater levels of subsidies may be needed to overcome cost barriers. However, the only information available is from the survey, indicating whether any program participants had made use of these four different types of assistance.

Exhibit 5-3 presents the share of PHAs where homebuyers had made use of these different types of assistance. Downpayment assistance grants were very common, with 93 percent of all PHAs reporting that some of their program purchasers have used this type of assistance. Below market or forgivable second mortgages and IDA programs were the next most common types of assistance, with 55 and 61 percent of all PHAs having had some buyers that benefited from these types of programs. The least common form of assistance was grants or below market interest rate loans for rehabilitation, which only 25 percent of PHAs reported had been used by their voucher holders. Among the four types of subsidy programs, the availability of below market or forgivable second mortgages has the largest correlation with the home purchase rate, at 0.15. There is little correlation with either the availability of downpayment assistance grants (0.08) or support for home rehabilitation (-0.03), while the use of IDA programs is actually negatively correlated with the home purchase rate (-0.16). To examine whether the overall prevalence of these different types of assistance matters, Exhibit 5-3 also shows the average number of these subsidy types reported by each PHA (that is, how many of the four different types of subsidies that the PHA reported their buyers had used). However, there is essentially no correlation between this measure and the home purchase rate.

Finally, some programs do not allow the use of adjustable rate mortgages (ARMs) because of concern about the risks associated with mortgage payments that rise with market interest rates. However, because ARMs generally offer lower initial interest rates and thereby increase the chances that a low-income borrower can qualify for a mortgage, their use may be associated with higher home purchase rates. To explore this issue, we examined whether programs allowing ARMs had higher purchase rates. A large majority of PHAs do not allow the use of ARMs. However, contrary to our expectation, there is a slight positive association between disallowing the use of ARMs and the home purchase rate.

Variation in Program Characteristics for a Broader Set of PHAs

The analysis presented in this chapter has focused on 44 PHAs for which we had data on market characteristics from the American Community Survey and for which we were able to compile information on the number of vouchers managed by each PHA. Given the small overall sample size of 44 programs – and only 11 programs in each home-purchase rate quartile – anomalies in one or two programs may significantly affect the averages presented. For comparison with these results, correlation coefficients and means by quartile for the full survey sample of 206 PHAs are shown in Exhibit 5-4. Since we do not have data on market characteristics or on the number of vouchers managed by these PHAs, the exhibit only includes the variables that are available from the PHA survey. Also, since we do not have information on the total number of vouchers available we cannot estimate a home purchase rate per 1,000 vouchers. Instead, the correlations and quartiles are defined in terms of total home purchases per year of program operation. As demonstrated by Exhibit 5-2, this measure results in a different ordering of voucher homeownership program outcomes. Nonetheless, there is a fairly high and statistically significant correlation between these the annual rate of home purchase per voucher and the number of annual home purchases (0.47). This association is evidenced by the fact that the first quartile of PHAs shown in Exhibit 5-2 also had the highest annual number of home purchases.

Exhibit 5-4. Correlation Coefficients and Means of Program and Market Characteristics by Annual Number of Home Purchases – All 206 PHAs

	Correlation with Home Purchase Rate (Prob. ≠ 0)	Closings per year				
		All 206 PHAs	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
PHA Level of Effort						
Percent of Counseled Purchasing a Home	0.09	56%	65%	65%	52%	44%
Average Staff Hours per Total Closings	**-0.27*** **	3.7	1.3	1.7	3.8	8.0
Quality of Counseling (Percent of PHAs)						
PHAs Provides Some Counseling	-0.02	48%	58%	37%	41%	57%
No Individual Counseling Provided	-0.12	17%	10%	22%	18%	18%
Program Eligibility and Preferences (Percent of PHAs)						
FSS Required	-0.06	29%	23%	29%	33%	29%
Income and Employment Requirements	-0.04	22%	19%	24%	24%	24%
Credit, Savings, or Debt Requirements	-0.02	14%	13%	14%	16%	12%
Preference to the Disabled	-0.02	17%	21%	18%	12%	18%
Financing Models and Availability of Subsidies (Percent of PHAs, except where noted)						
HAP as Income Financing Model	**-0.14** **	60%	54%	65%	59%	63%
Downpayment Assistance Grants Available	**0.22*** **	84%	98%	86%	80%	73%
Below Market or Forgivable Second Mortgages Available	**0.25*** **	46%	63%	49%	39%	33%
IDAs or Other Matched Savings Accounts Available	**0.21*** **	45%	63%	43%	39%	35%
Grant or Below Market Loan for Rehabilitation Available	0.06	25%	35%	16%	25%	25%
Average Number of Types of Additional Subsidies Available	**0.29*** **	2.0	2.6	1.9	1.8	1.7
Adjustable Rate Mortgages Are Not Allowed	0.06	74%	81%	80%	69%	67%

Correlation coefficients that are statistically significant are shown in bold. * indicates statistical significance at the p>=.10 level, ** indicates statistical significance at the p>=.05 level, and *** indicates statistical significance at the p>=.01 level.

Comparing the correlations shown in Exhibits 5-3 and 5-4, the results are consistent in finding no relationship between the number or rate of home purchases and whether PHAs provided counseling themselves or if individual counseling was provided. In terms of program eligibility and preference rules, the larger sample finds essentially no relationship between any of these measures and the number of home purchases. This is in contrast with the smaller sample that found a statistically significant relationship between additional income and employment requirements and lower rates of home purchase. However, the larger sample does provide greater support for the role of the type of finance model used and the availability of additional subsidies. All of these variables have the expected correlation with the number of home purchases and are highly statistically significant. The use of the HAP as income model is associated with fewer annual home purchases, while the availability of the various subsidy types all are associated with a greater number of annual purchases, with the exception of loans or grants to support housing rehabilitation.

5.5 Regression Analysis of Home Purchase Rates

While the patterns reported so far give an indication of the factors that may be associated with a program's home purchase rate, each factor is considered separately, without adjusting for other program or market differences. To examine the effect of selected factors on purchase rates while simultaneously holding variation in the other variables constant, we estimated an ordinary least squares regression model to predict the annual home purchase rate of the 44 PHAs for which market data is available.[61] Given the very small number of observations available (44 PHAs), it is not feasible to include all of the measures included in Exhibit 5-3, particularly since many of the measures are likely to be quite similar (e.g., the share of voucher holders that are actively participating in the voucher homeownership program and the share of voucher holders that have completed counseling). With so few observations, it would be very difficult to identify a statistically significant relationship if a large number of variables are included in the model. As a result, we chose a short list of independent variables to represent the six categories of program characteristics shown in Exhibit 5-3 with the variables that seem to be most strongly associated with the home purchase rate, based on the simple correlations.

The following variables were included in the regression model:

- The number of voucher holders counseled per year per 1,000 vouchers managed: This variable had the strongest association with the home purchase rate of the measures related to the level of effort expended by the PHA;
- An indicator of whether the PHA imposed any greater restrictions on participants in terms of income, employment, credit, savings, or debt levels: The use of greater restrictions regarding income and employment was found to have a fairly high correlation with lower home purchase rates. This variable is combined with restrictions on credit, savings, and debt levels in the regression as an overall measure of more restrictive program requirements;
- The median house value: While the median house value had only a weak correlation with the home purchase rate, it is included in the model to test its statistical significance once

[61] The estimated regression equation is not a formal model of the process that determines the home purchase rate. Rather, it is intended as a simple test of the statistical association of a few factors that we have identified as likely to influence the home purchase rate.

other program and market characteristics are controlled for. The FMR is not included, as it did not have the expected correlation with the home purchase rate, while the ratio of the FMR to area median house prices is not included since it had no correlation with the purchase rate.

- The use of HAP as income financing model: This program characteristic was found to have a weak association in the sample of 44 MSAs, but a statistically significant association in the sample of 206 PHAs. It is included in the regression model to examine whether it is statistically significant when other factors are controlled for; and
- The availability of below market second mortgages: This variable had a stronger correlation with the home purchase rate than any other measure of the availability of other subsidies to support homeownership.

Not included in the regression model are any measures related to the characteristics of the counseling provided, since these measures had little relationship with the rate of home purchase. We also do not include measures of voucher participants' income, as these measures did not have the expected correlation with the home purchase rate and also are highly correlated with home prices.

Exhibit 5-5 below shows the results of the regression.[62] The small sample size of 44 restricts our ability to find significant effects, even if they are actually present. The overall fit of the model as measured by the R-Squared statistic is fairly low. About 22 percent of the variation across PHAs in the home purchase rate is explained by our model, indicating that there are a number of important factors affecting this outcome that we have not been able to capture. It may be that the factors most important in determining purchase rates are those that are difficult to measure or not available for this analysis—for example, voucher holders' motivation to purchase, the dedication of individual PHA staff in guiding participants through the program, individual participant characteristics, or the prevalence and value of other subsidies available to participants.

Only two variables are found to have a statistically significant relationship with home purchase rates. The first is the number of participants counseled per year for every 1,000 voucher allocated, which is significant at a 90 percent confidence level. All else equal, for every additional 20 participants counseled, programs will have one additional purchaser. Of course, it is difficult to determine the direction of causality here—does more counseling increase home purchases or does a greater likelihood of purchase increase the number counseled? Nonetheless, this result is consistent with the idea that purchases will increase with greater effort by PHAs to promote the program.

[62] Because Bernalillo County, NM had a purchase rate that was much higher than all of the other sites, we also ran a separate regression that excluded Bernalillo County. The overall fit of the model and the significance levels of the coefficients did not change greatly, indicating that the high purchase rate in Bernalillo County was not driving the results of the regression.

Exhibit 5-5. Ordinary Least Squares Regression Results
Dependent Variable: Ratio of Purchases per Year to Total Voucher Allocation (per 1,000 Vouchers)

Variable	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	3.000	1.010	2.97	0.01
Number of Counseled per Year, per 1,000 Vouchers	0.050	0.027	1.89	0.07
Median House Value, per $10,000	-0.031	0.0347	-0.89	0.38
Income and Employment Requirements, Above HUD Minimum OR Credit, Savings, or Debt-Related Requirements	-1.660	0.765	-2.17	0.04
HAP Considered Income in Financing Model	-0.611	0.735	-0.83	0.41
Availability of Below Market Second Mortgages	0.821	0.712	1.15	0.26

N=44; R-Squared .223; Adjusted R-Squared .121

There is also a statistically significant relationship (at the 95 percent confidence level) between additional eligibility requirements and home purchases. All else equal, where a PHA had higher standards than required by HUD related to participant income and employment or additional requirements around credit, savings, or debt-levels, there was a decrease of nearly 1.5 purchasers for every 1,000 vouchers managed. Since the average PHA had a home purchase rate of 2.4 purchases for every 1,000 vouchers, this effect is not unimportant. However, since this association was not supported by the sample of 206 PHAs, it may be that this result is specific to this smaller sample of PHAs.

Although the sample size was not large enough to detect highly significant differences in any of the other variables, the directions of the effects are generally in keeping with our expectations. The negative parameter estimate for median house value confirms the pattern seen in the quartile analysis. Holding the other variables constant, an increase in median house values corresponds to a decrease in purchase rates. This supports the expected effect of high house values on purchases. However, after controlling for other factors, this association is not strong in this sample. As hypothesized, considering the HAP as an income source rather than as a direct offset to the mortgage payments or used to support a second mortgage is more conservative and is associated with fewer home purchases. Also as expected, having access to below market second mortgages is associated with an increase in the home purchase rates. However, none of these relationships with the home purchase rate is large enough for us to detect significant effects, given our small sample.

5.6 Summary

In this chapter we have attempted to assess the relationship between various voucher homeownership program features and housing market characteristics and the home purchase rate of a small sample of PHAs. This analysis was intended to shed light on the relative importance of different program and market characteristics and to point toward conditions in which voucher homeownership programs are more likely to help voucher holders to purchase homes. This analysis was severely limited both by the small sample size of PHAs for which programmatic and housing market variables were available and by the fairly imprecise nature of the variables that were available. However, the patterns found provide some indication of the factors that may be important for program success in supporting homebuying activity.

This chapter began by comparing the market characteristics of PHAs with more than 40 purchases to date and those with 40 or fewer purchases. This comparison found that voucher homeownership programs with more than 40 purchases to date were at PHAs with much larger voucher programs than the programs with fewer purchases to date, likely reflecting both the greater organizational capacity and the larger number of qualified program participants at larger PHAs. Median house values and household incomes were slightly lower at the sample programs with more than 40 purchases to date, reflecting the relatively poorer portions of urban areas in which the programs with the greater number of purchases were located. There was no real difference between the two groups of programs when measuring affordability using the ratio of house values to local incomes and to voucher purchaser incomes. There was also no real difference between the two groups in the purchasing power provided by local FMRs when looking at the average ratio of house value to annualized FMRs.

We then analyzed the correlation between the annual home purchase rate and a series of program and housing market characteristics. The strongest predictor of the home purchase rate was the share of a PHA’s voucher holders that complete homeownership counseling. This result is consistent with the idea that greater effort by PHAs to extend services to voucher holders increases the home purchase rate. However, it is also likely that more voucher holders will complete counseling in situations where homeownership is more likely to be attainable. We cannot distinguish between these interpretations of the observed relationship. Another factor that was found to have a fairly strong association with the home purchase rate realized by a PHA was whether the PHA imposed any additional restrictions on program participants beyond those required by HUD in terms of income and employment, or imposed other requirements related to credit, savings, or debt levels. Programs that had more stringent requirements were found to have lower home purchase rates in the sample of 44 PHAs that were the focus of the most indepth analysis. However, this association was not evident in a larger sample of 206 PHAs.

It was expected that the level of home prices would exert a significant influence on the home purchase rate, with low-income households finding it difficult to achieve homeownership in high-cost markets, even with the subsidies offered by a housing voucher. However, our analysis found only a weak association between the home purchase rate and house price levels, which was not statistically significant.

We would also expect that the availability of additional subsidies beyond the housing voucher, such as downpayment assistance grants, below market interest-rate mortgages, or matched savings programs, would also help to increase the home purchase rate through voucher homeownership programs. Unfortunately, only fairly imprecise measures of the availability of these types of assistance were available. The analysis of the sample of 44 PHAs found little correlation between the ability of purchasers to take advantage of programs of these types and the home purchase rate, although analysis of the larger sample of 206 PHAs found a statistically significant association between the annual number of home purchases and these measures.

Finally, we estimated an ordinary least squares regression model to examine whether the associations found between selected program and market characteristics in the simple correlations were still evident when all of these factors were controlled for simultaneously. The regression model found a statistically significant association between the home purchase rate and two other variables: the number of voucher holders counseled by the PHA and the PHA's use of more restrictive eligibility requirements related to income, employment, credit history, savings, or debt. However, this latter characteristic was not found to be associated with the number of home purchases in the large PHA sample, so this result is not conclusive.

In general, the fairly low explanatory power of our regression model and the limited number of statistically significant relationships found indicates that the data available for this analysis did not adequately capture the factors that are most important in influencing the rate of home purchases by voucher homeownership programs. Future evaluations of the voucher homeownership program should obtain better measures of the program and market factors and should cover a broader cross section of PHAs in order to support a more thorough analysis of the factors associated with higher rates of home purchase. It would be particularly helpful to have better measures of the quality of program services, the characteristics of voucher holders, and the types and amounts of financial assistance available to program participants.

Chapter Six
Summary and Implications of the Study Findings

In this section, we review some of the study's key findings and the implications for the VHO program going forward. We also identify potential areas for future research.

The number of VHO programs is growing, but most programs still have small numbers of closings. The number of VHO programs has grown substantially since the Final Rule was published in 2002, although many programs have moved only a small number of VHO participants to homeownership so far. About 60 percent of our survey respondents reported 5 closings or fewer, and the median total number of vouchers PHA respondents expected to allocate to homeownership was only 18. It is thus likely that vouchers used for VHO purchases will always be a small percentage of the total vouchers allocated. But, even at a small scale, PHA administrators viewed the homeownership option as a logical add-on for their Family Self Sufficiency Programs and a valuable tool for asset-building for the families they serve. Some agency staff said offering homeownership enhances the PHA's image in the broader community as well. Staff in one of the case study sites suggested that additional HUD guidance and technical assistance on program operations would be helpful.

Most agencies are "casting a wide net" by recruiting prospective VHO participants without imposing additional program requirements. Fewer than 20 percent of VHO administrators surveyed said their programs had either income or employment criteria beyond HUD's minimum requirements. Of those programs with additional targeting, FSS participants were the most commonly targeted group: 29 percent of programs require FSS, and another 34 percent give preferential access to FSS participants. Some additional screening criteria used by PHAs may be associated with reducing rates of purchase, as PHAs made tradeoffs between more home purchases and increased risk of mortgage delinquency and default.

Most PHAs are developing partnerships with other organizations to offer some or all of the pre-purchase counseling, not infrequently (in roughly one-third of programs) at no direct cost to the PHA. Few programs were developing pre-purchase counseling specifically for VHO participants. More commonly, VHO participants received their training in groups with other first-time homebuyers, often in combination with one-on-one assistance from PHA or partner staff. This combination of formats allowed general information relevant to all purchasers to be conveyed efficiently, while giving prospective purchasers individualized assistance they needed to remedy credit history problems, build budgeting skills, and learn how to find a home and finance the purchase. Most VHO administrators we surveyed said they have partners that provide some or all the pre-purchase counseling, sometimes at no cost to the PHA. This should be encouraging to PHA staff who have been reluctant to start a voucher homeownership program because of concerns that PHA staff would not have the expertise necessary to provide the pre-purchase counseling. HUD field offices and Fannie Mae and Freddie Mac regional offices can also be helpful to PHA staff who are looking for program partners.

Interest in the program from applicants is as great or greater than most program administrators expected it would be, but high housing prices were seen as a significant barrier to moving renters

to homeownership. Among the case study sites, program staff and focus group participants commonly commented that it was difficult for VHO participants to find homes they could afford in neighborhoods where they wanted to live. This was true even in some of the lower-cost housing markets, such as Indianapolis. We found some evidence that programs with additional sources of financing assistance to make purchases more affordable have greater success in achieving purchases, although our measures were somewhat imprecise. Helping VHO program administrators identify existing sources of assistance for low-income homebuyers may help more renters move to homeownership.

Program administrators say limited availability of staff to support clients is also an important consideration limiting program growth. Staff said that purchasers need a lot of assistance to prepare for homeownership and complete the home purchase process. However, we found evidence of economies of scale for the participation process as a whole, but not for helping voucher holders to complete purchases. Among the VHO programs represented in our survey, we found that, as program size increases from 11 to 100 participants, PHA staffing levels change very little. It was not clear whether this reflects some economies of scale as enrollment increases, or simply a lack of additional staff resources to devote to the program. In the programs at the upper end of this size range, it is likely that VHO participants will have to rely more on their own initiative or the assistance of partner organizations to navigate the home purchase process. Technical assistance on how PHA staff can assist participants most efficiently would also be helpful. For example, assembling information on different approaches to processing the HAP and applying it to the purchaser's mortgage each month would help PHA administrators assess their options and work with lenders to determine which approach would work best.

As HUD's 2003 study found, post-purchase assistance is still less developed than pre-purchase services. So far, however, the low rate of delinquencies and defaults implies that post-purchase support may not be critical to ensuring VHO participants stay current on their mortgages. Only 4 percent of PHA survey respondents (8 agencies) said there had been any foreclosures among their VHO purchasers, and they reported a total of just 10 foreclosures across the approximately 3,400 purchases reported by all survey respondents. Delinquencies were more common than foreclosures, but still fairly infrequent. About 12 percent of respondents (25 agencies) reported at least one delinquency, but none reported more than two. This is an area for future monitoring and research.

The low incidence of payment problems may reflect, in part, the prevalence of the "HAP as income" model for financing VHO purchases. Some 60 percent of survey respondents said the HAP as income model is used most frequently in their VHO programs. This model yields less purchasing power, but also results in lower payment burdens for the homebuyer. While it is still early to assess loan performance over time, this conservative approach to using the HAP may help buyers avoid payment problems. This, too, is an area for future monitoring and research.

In addition, based on our analysis of a sample of purchase transactions, most of the case study sites seem to be paying attention to affordability, keeping total housing costs a reasonable proportion of household income. In two sites, however, we found instances of high payment burdens that could be problematic in the future. In addition, staff in some programs raised concerns that increases in homeownership expenses such as property taxes would be difficult for some purchasers to accommodate. Also, repair or replacement needs that exceed reserves set aside could mean families may have difficulty maintaining their homes over time. HUD should encourage PHAs to monitor housing cost burdens carefully at the time of the initial closing and at annual recertifications. In addition, staff at one site suggested that HUD guidance on preparing purchasers for the time when their voucher assistance ends would be helpful.

Purchasers are moving to different neighborhoods to buy homes, but the post-purchase neighborhoods do not differ markedly from the neighborhoods where they were previously renting. The majority of purchasers in a sample of transactions we analyzed were living in low-poverty neighborhoods both before and after they bought homes. Nevertheless, purchasers in at least two of the case study sites said that one of the benefits of owning is escaping the stigma they had experienced as voucher program renters.

The purchasers who participated in focus groups for this study confirmed that the home purchase process was challenging, but they were, on balance, satisfied with the support they received from PHAs and their partners and were happy with their homes and neighborhoods. Purchasers found the challenges were worth the benefits of homeownership—building the family's assets and feeling the accomplishment of owning one's own home. In the words of one program purchaser who participated in a focus group,

> *It was not that easy. It was not a breeze at all. I had a disability to deal with and I had to try and attend to everything else. But I did not give up…This [homeownership] is a blessing, more than anything I could have been given. It is beyond measure for me personally…It makes living a little bit easier.*

Appendix A

Survey

VOUCHER HOMEOWNERSHIP STUDY
PHA SURVEY — TELEPHONE

OMB Approval Number #2528 0238________
Expires: June 30, 2006_____________________

Voucher Homeownership Study
PHA Survey—Telephone

September 2005

Respondent Name:____

Position Title:____

PHA Name:____

City/State:____

Phone Number:____

E-mail Address:____

PHA Identification Code:_______________________________________

Interviewer Name:____

Date Interview Completed:_______________________________________

Hello, my name is ________________________ and I work for [Abt Associates OR Newport Partners] a research company based in [Cambridge, Massachusetts OR Davidsonville, Maryland]. Newport Partners and Abt Associates have been hired by HUD's Office of Policy Development and Research to evaluate the Voucher Homeownership Program. The goal of the study is to assess the implementation of the program thus far, and identify particular program elements and designs that contribute to successful Voucher Homeownership programs. As part of the study, we are administering surveys to about 230 PHAs with Voucher Homeownership programs across the country. This survey will take about 45 minutes to complete. Participating in this interview is voluntary, and you can refuse to answer any question. I want to assure you that all your responses will remain confidential. The information we obtain from these interviews will be presented only as statistical summaries, and no individual respondents will be identified. This survey is being conducted under OMB approval #2528 0238. You are not required to respond to the survey if it does not have a valid OMB number. Your opinions are important to the study and we hope you agree to participate. The information you provide will help HUD to improve the Voucher Homeownership Program. Are you ready to begin?

INTRO:

YES **(SKIP TO Q1)** .... ☐ 1
NO **(SKIP TO INTRO2)**... ☐ 2

INTRO2: When would be a more convenient time for you to complete this interview? **RECORD DATE AND TIME FOR CALLBACK BELOW**.

_______/__________/_____________ ______:______ AM PM
MONTH DAY YEAR TIME

The first few questions I have are designed to collect information about the status of your Voucher Homeownership Program.

1. Does your PHA currently operate a Voucher Homeownership Program?

YES .... ☐1
NO **(THANK RESPONDENT, TERMINATE SURVEY)** .... ☐2

2. In what month and year did your PHA approve administrative plan changes to implement its Voucher Homeownership Program?
IF RESPONDENT DOES NOT KNOW EXACT DATE, PROBE FOR YEAR AT LEAST.

____________/____________
Month Year

REFUSED .... ☐97
DON'T KNOW .... ☐98

3. In what month and year did the first group of Voucher Homeownership participants begin pre-purchase counseling?
IF RESPONDENT DOES NOT KNOW EXACT DATE, PROBE FOR YEAR AT LEAST. If Respondent indicates that no one has started pre-purchase counseling yet, please indicate so by checking that box below.

____________/____________
Month Year
NO HOUSEHOLD HAS STARTED PRE-PURCHASE COUNSELING **(SKIP TO Q59)** .... ☐95
REFUSED .... ☐97
DON'T KNOW .... ☐98

4. In what month and year did the first closing on a house purchase occur under your PHA's Voucher Homeownership Program?
IF RESPONDENT DOES NOT KNOW EXACT DATE, PROBE FOR YEAR AT LEAST. IF RESPONDENT INDICATES THAT NO CLOSINGS HAVE TAKEN PLACE YET, SELECT THAT RESPONSE BELOW.

____________/____________
Month Year

NO CLOSINGS HAVE TAKEN PLACE SO FAR ....☐95
REFUSED..☐97
DON'T KNOW...☐98

The next set of questions focus on additional requirements you may have for program eligibility, as well as your strategies for recruiting participants.

5. Does your PHA have a Family Self Sufficiency Program?

YES ....☐1
NO **(SKIP TO Q6)**..☐2
REFUSED..☐7
DON'T KNOW...☐8

5a. Are ***all*** participants in your PHA's Voucher Homeownership Program required to be participants in the Family Self Sufficiency program?

YES ....☐1
NO...☐2
REFUSED..☐7
DON'T KNOW...☐8

6. PHAs may offer preferential access to some Voucher Homeownership applicants. For each type of applicant listed below, please indicate whether or not your PHA offers them preferential access. Does your PHA offer preferential access to…

READ LIST AND CHECK APPROPRIATE RESPONSE:	**YES**	**NO**	**REFUSED**	**DON'T KNOW**
a. Households qualifying as disabled	☐1	☐2	☐7	☐8
b. Elderly persons	☐1	☐2	☐7	☐8
c. Families with children	☐1	☐2	☐7	☐8
d. Families that are pre-qualified for a mortgage	☐1	☐2	☐7	☐8
e. Households enrolled in FSS	☐1	☐2	☐7	☐8
f. Other (Please describe:____________________ ____)	☐1	☐2	☐7	☐8

7. In addition to current Housing Choice Voucher holders, are applicants on the PHA waiting list eligible for the Voucher Homeownership Program?

YES .... ☐1
NO .... ☐2
REFUSED .... ☐7
DON'T KNOW .... ☐8

8. In addition to the eligibility requirements defined in the HUD regulations, some PHAs have additional eligibility requirements for participation in their Voucher Homeownership Program. Does your Voucher Homeownership Program have any:

READ LIST AND CHECK APPROPRIATE RESPONSE:	**YES**	**NO**	**REFUSED**	**DON'T KNOW**
a. **Household income** requirements—beyond the $10,300 annual requirement in the HUD regulations?	☐1	☐2	☐7	☐8
b. **Employment** requirements—beyond the 30-hour requirement in the HUD regulations?	☐1	☐2	☐7	☐8
c. Other eligibility requirements **not** related to income or employment (Please explain:__________________________ ____)	☐1	☐2	☐7	☐8

9. There are a number of methods available for outreach to potential participants. I am going to read a list of outreach methods some PHAs use. Please tell me whether or not you use each of the following outreach methods to recruit participants for your Voucher Homeownership Program. Does your PHA use…

READ LIST AND CHECK APPROPRIATE RESPONSE:	**YES**	**NO**	**REFUSED**	**DON'T KNOW**
a. Flyers or brochures	☐1	☐2	☐7	☐8
b. Letters to Housing Choice Voucher holders	☐1	☐2	☐7	☐8
c. Letters to households on the waiting list	☐1	☐2	☐7	☐8
d. Personal outreach through case managers	☐1	☐2	☐7	☐8
e. Information sessions	☐1	☐2	☐7	☐8
f. Other (Please describe:____________________)	☐1	☐2	☐7	☐8

10. Would you say that the actual level of demand for participation in your Voucher Homeownership Program has exceeded, met, or fallen short of your original expectations?

THE RESPONSE HAS EXCEEDED EXPECTATIONS **(ASK Q10a)**. ☐1
THE RESPONSE HAS MET EXPECTATIONS **(SKIP TO Q11)**........ ☐2
THE RESPONSE HAS FALLEN SHORT OF EXPECTATIONS **(ASK Q10a)** .... ☐3
REFUSED **(SKIP TO Q11)**.......... ☐7
DON'T KNOW **(SKIP TO Q11)**.......... ☐8

10a. Why do you think that demand is different from what you expected? **RECORD RESPONSE VERBATIM**

____
____
____

11. *The next set of questions asks about the number of participants at different stages of the program. If you do not have exact numbers, please give us your best estimate.*

How many households are currently active in your Voucher Homeownership Program today? By "currently active", we mean either receiving counseling or completed counseling and actively pursuing homeownership. Please do not count households that have dropped out or have successfully purchased homes.
If RESPONDENT INDICATES THAT no households are currently active, please enter "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET AT END OF PACKAGE.

_________ Number of households currently active in the program

REFUSED..☐997
DON'T KNOW...☐998

12. How many households have successfully completed pre-purchase homeownership counseling under your PHA's program to date? Please count all households that completed counseling, even if they have since dropped out of the program.
IF NO HOUSEHOLDS HAVE SUCCESSFULLY COMPLETED PRE-PURCHASE COUNSELING, PLEASE ENTER "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET ALSO.

_________ Number of households that have completed pre-purchase counseling

REFUSED..☐997
DON'T KNOW...☐998

13. Please think about all households who have completed pre-purchase counseling through the Voucher Homeownership Program and closed on a house.

13a. How many households have closed on a house?
IF NONE, ENTER "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET ALSO.

_________ Number of households that closed on a house

REFUSED..☐ 997
DON'T KNOW...☐ 998

13b. How many households have closed on a house ***with*** a voucher subsidy?
IF NONE, ENTER "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET ALSO.

_________ Number of households that closed with a voucher subsidy

REFUSED..☐ 997
DON'T KNOW...☐ 998

13c. How many of the households have closed on a house ***without*** a voucher subsidy?
IF NONE, ENTER "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET ALSO.

_________ Number of households that closed without a voucher subsidy

REFUSED..☐ 997
DON'T KNOW...☐ 998

14. How many of the purchasers are continuing to receive an ongoing voucher subsidy? Please exclude any purchaser who no longer receives a voucher subsidy, regardless of the reason.
IF NONE, ENTER "0".

INTERVIEWER: RECORD RESPONSE BELOW ON DROPSHEET ALSO.

__________ Number of purchasers with an ongoing voucher subsidy

REFUSED..☐ 997
DON'T KNOW...☐ 998

Before we go on, I would like to confirm the numbers we have just discussed.
REFER TO DROPSHEET AND REVIEW RESPONSES, CORRECT AS NECESSARY, THEN CONTINUE WITH Q15.

15. How many households have purchased homes under your PHA's Voucher Homeownership Program but no longer receive a voucher subsidy because their income increased?
IF NONE, ENTER "0".

_________ Number of purchasers dropped from program due to increased income

REFUSED..☐ 997
DON'T KNOW...☐ 998

16. How many total closings have taken place in 2005 thus far?

_________ Number of closings since the beginning of 2005

How many more closings do you estimate will take place for the rest of calendar year 2005?

If none, please enter "0".

_________ Estimated number of closings for the remainder of 2005

REFUSED..☐ 997
DON'T KNOW...☐ 998

17. How many purchase contracts have been entered into but not yet closed at this time?
IF NONE, ENTER "0".

_________ Number of purchase contracts not yet closed

REFUSED..☐ 997
DON'T KNOW...☐ 998

18. What is your PHA's target number of households to receive a voucher subsidy for the Voucher Homeownership Program?
RECORD ONLY ONE RESPONSE.

_________ Target Number of households to receive a voucher subsidy for homeownership

The PHA has not set a target number of voucher subsidies .... ☐ 996
PHA's target number of voucher subsidies varies.......................... ☐ 999
(Please explain____
____
____)
REFUSED... ☐ 997
DON'T KNOW.. ☐ 998

19. How would you say the number of closings to date in your Voucher Homeownership Program compares with your expectations from before the program started? Would you say that the number has ***exceeded***, ***met***, or ***fallen short*** of expectations?
RECORD ONLY ONE RESPONSE.

The number of closings has exceeded expectations .... ☐ 1
The number of closings has met expectations **(SKIP TO Q20)** .... ☐ 2
The number of closings has fallen short of expectations .... ☐ 3
REFUSED **(SKIP TO Q20)**... ☐ 7
DON'T KNOW **(SKIP TO Q20)**... ☐ 8

19a. Why do you think that the number of closings is different than you expected?
____
____
____

20. *The next few questions focus on your program staffing.*

Which staff person has the primary responsibility for implementation of your PHA's Voucher Homeownership Program? Please tell me the person's name and position.

____________________________ Name of primary PHA staff person
____________________________ Position

21. How many hours per week do staff at your PHA spend on activities related to your PHA's Voucher Homeownership Program? Please include the ***total number of hours*** per week for ***all*** PHA staff members who work on your Voucher Homeownership Program, not just the person with primary responsibility for it. Please do ***not*** include staff effort at any local program partners or organizations other than your PHA.

__________ Average total hours per week for all PHA staff

REFUSED..☐997
DON'T KNOW...☐998

IF RESPONDENT REPORTED NO CLOSINGS TO DATE IN Q13a, THEN SKIP TO QUESTION 23.

22. Would you say your current staffing needs are greater now, about the same now, or less now than they were during the period leading up to your first closing?
RECORD ONLY ONE ANSWER.

Greater now than before...☐1
About the same now as before **(SKIP TO Q23)**............................☐2
Less now than before..☐3
REFUSED **(SKIP TO Q23)**...☐7
DON'T KNOW **(SKIP TO Q23)**...☐8

22a. Please explain the reasons for the rating you selected.

____
____
____

23. The next set of questions will address pre-purchase homeownership counseling.

Has your PHA "partnered" with any outside organization, such as a local non-profit, to provide the required pre-purchase counseling for your Voucher Homeownership Program participants?

YES .... ☐1
NO **(SKIP TO Q27)** .... ☐2
REFUSED .... ☐7
DON'T KNOW .... ☐8

24. How many organizations has your PHA partnered with to provide pre-purchase counseling?

_________ Number of partner organizations

REFUSED .... ☐997
DON'T KNOW .... ☐998

25. Which of the following types of organizations ***actually conduct*** the pre-purchase counseling sessions for your PHA's Voucher Homeownership Program?

Are the counseling sessions conducted by…
READ LIST AND CHECK APPROPRIATE RESPONSE:

	YES	**NO**	**REFUSED**	**DON'T KNOW**
a. The PHA	☐1	☐2	☐7	☐8
b. Housing counseling agencies	☐1	☐2	☐7	☐8
c. Credit counseling agencies	☐1	☐2	☐7	☐8
d. Community Development Corporations / Affordable Housing Organizations	☐1	☐2	☐7	☐8
e. Organizations serving people with disabilities	☐1	☐2	☐7	☐8
f. Other type of organization (Please describe:____________________________ ____)	☐1	☐2	☐7	☐8

26. Does your PHA pay any fees to outside organizations to provide pre-purchase homeownership counseling to participants in your program?

YES .... ☐1
NO .... ☐2
REFUSED .... ☐7
DON'T KNOW .... ☐8

27. Please indicate whether or not your PHA uses any of the following sources of funding to pay for pre-purchase counseling. Please only include sources of funds that <u>your PHA has access to</u>, do not include sources of funds any partner organizations may receive.

Does your PHA use…

READ LIST AND CHECK APPROPRIATE RESPONSE:

	YES	**NO**	**REFUSED**	**DON'T KNOW**
a. Voucher program administrative funds	☐1	☐2	☐7	☐8
b. HUD Housing Counseling Grants	☐1	☐2	☐7	☐8
c. Community Development Block Grants (CDBG)	☐1	☐2	☐7	☐8
d. Other HUD funds (Please describe:___________________________ ____)	☐1	☐2	☐7	☐8

28. Which of the following formats does your Voucher Homeownership Program use to conduct the pre-purchase counseling?

Do you use…

READ LIST AND CHECK APPROPRIATE RESPONSE:

	YES	**NO**	**REFUSED**	**DON'T KNOW**
a. Group counseling sessions limited to households participating in the voucher homeownership program	☐1	☐2	☐7	☐8
b. Group counseling sessions that may include other households not participating in the Voucher Homeownership Program	☐1	☐2	☐7	☐8
c. Individual counseling of participating households	☐1	☐2	☐7	☐8

29. Pre-purchase counseling can cover a variety of topics. We are interested in which topics are covered in the pre-purchase counseling under your Voucher Homeownership Program.

Does your program cover…

READ LIST AND CHECK APPROPRIATE RESPONSE:	**YES**	**NO**	**REFUSED**	**DON'T KNOW**
a. Home maintenance	☐1	☐2	☐7	☐8
b. Budgeting and money management	☐1	☐2	☐7	☐8
c. Credit counseling	☐1	☐2	☐7	☐8
d. Credit repair	☐1	☐2	☐7	☐8
e. How to negotiate purchase prices	☐1	☐2	☐7	☐8
f. Financing the purchase of a house	☐1	☐2	☐7	☐8
g. How to find a home	☐1	☐2	☐7	☐8
h. Fair housing	☐1	☐2	☐7	☐8
i. Truth-in-lending and/or Real Estate Settlement Procedures Act (RESPA) requirements	☐1	☐2	☐7	☐8
j. Other (Please describe______________________ ____ ____ ____)	☐1	☐2	☐7	☐8

30. In general, how effective do you think your pre-purchase counseling is in preparing households for homeownership?
RECORD ONLY ONE RESPONSE.

Very effective..☐1
Effective...☐2
Not effective..☐3
No opinion ....☐4
REFUSED...☐7
DON'T KNOW...☐8

30a. Please explain the reasons for the rating you selected.
____
____
____

The next set of questions asks about the use and content of any post-purchase counseling you may be offering.

31. Is post-purchase counseling ***offered*** to households that have purchased homes under the Voucher Homeownership Program, either by your PHA or by a partner organization?

YES, OFFERED TO ALL ....☐1
YES, OFFERED TO SOME BUT NOT ALL ....☐2
NO **(SKIP TO Q36)**...☐3
REFUSED...☐7
DON'T KNOW...☐8

31a. Is post-purchase counseling ***required*** of households that have purchased homes under your program?

YES, REQUIRED FOR ALL ....☐1
YES, REQUIRED FOR SOME BUT NOT ALL...........................☐2
NO..☐3
REFUSED...☐7
DON'T KNOW...☐8

32. How many households have ***received*** post-purchase counseling under your PHA's Voucher Homeownership Program to date?
IF NONE, ENTER "0".

_________ Number of households that received post-purchase counseling to date

REFUSED...☐997
DON'T KNOW...☐998

33. Which of the following formats does your Voucher Homeownership Program use to conduct the post-purchase counseling?

Do you use…
READ LIST AND CHECK APPROPRIATE RESPONSE

	YES	NO	REFUSED	DON'T KNOW
a. Respond to needs of purchasers as requested	☐1	☐2	☐7	☐8
b. Group counseling sessions limited to households participating in the Voucher Homeownership Program	☐1	☐2	☐7	☐8
c. Group counseling sessions that may include other households not participating in the Voucher Homeownership Program	☐1	☐2	☐7	☐8
d. Individual counseling of households	☐1	☐2	☐7	☐8
e. Follow-up calls to purchasers at specific points in time (i.e., one month post-purchase, three-months post-purchase)	☐1	☐2	☐7	☐8
f. Monthly workshops	☐1	☐2	☐7	☐8
g. Peer support or 'rap' sessions (i.e., meetings of purchasers)	☐1	☐2	☐7	☐8
h. Counseling is provided as part of annual recertification	☐1	☐2	☐7	☐8
i. Other (Specify___________________________)	☐1	☐2	☐7	☐8

34. The post-purchase counseling offered to home purchasers can cover a number of topics. Which of the following topics are covered in the post-purchase counseling offered to purchasers under your program (even if counseling is provided by a partner organization)?

Do you offer post-purchase counseling on…
READ LIST AND CHECK APPROPRIATE RESPONSE

	YES	**NO**	**REFUSED**	**DON'T KNOW**
a. Home maintenance	☐1	☐2	☐7	☐8
b. Budgeting and money management	☐1	☐2	☐7	☐8
c. Predatory lending	☐1	☐2	☐7	☐8
d. Other (Please describe____________________)	☐1	☐2	☐7	☐8

35. NO QUESTION

36. How many lending institutions has your PHA partnered with?

_________ Number of partner financial institutions

REFUSED...☐997
DON'T KNOW...☐998

37. Which of the following types of organizations has your PHA partnered with?

Have you partnered with…
READ LIST AND CHECK APPROPRIATE RESPONSE

	YES	NO	REFUSED	DON'T KNOW
a. Mainstream lenders (mortgage banks, credit unions, savings and loan institutions, commercial banks)	☐1	☐2	☐7	☐8
b. Public or nonprofit funders such as Neighborhood Reinvestment Corporation	☐1	☐2	☐7	☐8
c. Other (Please describe_____________________)	☐1	☐2	☐7	☐8

38. Does your PHA have a written agreement or memorandum of understanding with partner financial institutions?
RECORD ONLY ONE RESPONSE.

YES, WITH ALL..☐1
YES, WITH SOME BUT NOT ALL ....☐2
NO WRITTEN AGREEMENTS...☐3
REFUSED...☐7
DON'T KNOW...☐8

39. How do lenders who provide mortgages to Voucher Homeownership participants ***typically*** treat the Housing Assistance Payment (HAP) when qualifying house purchasers for mortgage loans? Please tell me which of the following approaches is used ***most often***.
RECORD ONLY ONE RESPONSE.

HAP is counted as part of the purchaser's gross income...............☐1
HAP is treated as a dollar-for-dollar offset of the mortgage payment...☐2
HAP is treated as an amount to be used specifically to pay for a second mortgage...☐3
Other (Please describe ____________________) ....☐4
REFUSED...☐7
DON'T KNOW...☐8

40. Do the mortgage lenders working with your PHA's Voucher Homeownership Program participants generally use ***manual*** underwriting or ***automated*** underwriting?
CHECK ONE ONLY

> **IF RESPONDENT ASKS FOR DEFINITIONS, SAY:**
> - ***Automated underwriting*** is a computer-driven process for determining whether a loan will be approved based on borrower and property information that is fed into the underwriting program.
> - In ***manual underwriting***, a person (the underwriter) looks at the borrower and property characteristics and makes a determination on whether the loan will be approved.

MANUAL UNDERWRITING..☐1
AUTOMATED UNDERWRITING ....☐2
BOTH...☐3
REFUSED..☐7
DON'T KNOW...☐8

41. In addition to household income and the Housing Assistance Payment (HAP), what other sources of funds do purchasers in your program use?

Do they use…
READ LIST AND CHECK APPROPRIATE RESPONSE

	YES	**NO**	**REFUSED**	**DON'T KNOW**
a. Individual Development Account (or other matched savings account)	☐1	☐2	☐7	☐8
b. Below-market/forgivable second mortgage	☐1	☐2	☐7	☐8
c. Downpayment assistance grant	☐1	☐2	☐7	☐8
d. Grant or below-market loan for rehabilitation costs	☐1	☐2	☐7	☐8

IF <u>YES</u> TO <u>ANY</u> ITEMS IN QUESTIONS 41a-d, CONTINUE TO QUESTION 42. OTHERWISE, SKIP TO Q43.

42. Which of the following types of organizations provide the additional sources of funding to purchasers that you identified in the previous question?

Do purchasers receive additional funds from…
READ LIST AND CHECK APPROPRIATE RESPONSE

	YES	NO	REFUSED	DON'T KNOW
a. Housing Finance Agencies	☐ 1	☐ 2	☐ 7	☐ 8
b. City/County Community Development Agencies	☐ 1	☐ 2	☐ 7	☐ 8
c. Community Development Corporations / Affordable Housing Organizations	☐ 1	☐ 2	☐ 7	☐ 8
d. Lenders	☐ 1	☐ 2	☐ 7	☐ 8
e. Other type of organization (Please describe_________________________)	☐ 1	☐ 2	☐ 7	☐ 8

43. Do any purchasers in your program use Family Self-Sufficiency escrow accounts as a source of funding?

YES ....☐ 1
NO...☐ 2
REFUSED...☐ 7
DON'T KNOW..☐ 8

44. Does your PHA have a minimum downpayment requirement for Voucher Homeownership purchasers?

YES ....☐ 1
NO **(SKIP TO Q46)**...☐ 2
REFUSED **(SKIP TO Q46)**...☐ 7
DON'T KNOW **(SKIP TO Q46)**..☐ 8

45. Is the downpayment requirement a:

i. Minimum fixed-dollar amount?

amount $__________________? **IF NONE, RECORD "0"**

REFUSED...☐997
DON'T KNOW..☐998

ii. Percentage of the loan value?

percent %__________________? **IF NONE, RECORD "0"**

REFUSED...☐997
DON'T KNOW..☐998

iii. Other, please describe : **IF NO COMMENTS, RECORD "0"**

____
____
____
____

READ LIST AND CHECK APPROPRIATE RESPONSE:

45a. What dollar amount or percentage of the downpayment must come from the participating household's own funds?
IF NONE, ENTER "0".

i)______________% must come from the household's own funds or
ii)_____________$ dollar value that must come from the household's own funds

REFUSED..☐997
DON'T KNOW...☐998

46. After a family has bought a home in your PHA's Voucher Homeownership Program, to whom does your PHA ***usually*** issue the voucher subsidy – to the homeowner, or directly to the lender?
RECORD ONLY ONE RESPONSE.

Housing voucher payments are usually made to the homeowner...☐ 1
Housing voucher payments are usually made directly to the lender☐ 2
REFUSED...☐ 7
DON'T KNOW..☐ 8

47. Does your PHA have procedures in place for determining whether mortgage payments for homes purchased under the Voucher Homeownership Program are delinquent, or if mortgages are in default?

YES ....☐ 1
NO **(SKIP TO Q48)**...☐ 2
REFUSED **(SKIP TO Q48)**...☐ 7
DON'T KNOW **(SKIP TO Q48)**.....................................☐ 8

47a. **[IF YES]** Please describe the procedures.

____
____
____

48. To date, how many ***foreclosures*** have there been on mortgages under your PHA's Voucher Homeownership Program?
IF NONE, ENTER "0".

_________ Number of loans foreclosed

REFUSED...☐ 997
DON'T KNOW..☐ 998

49. Currently, how many purchasers under your PHA's Voucher Homeownership Program are ***delinquent*** or in ***default*** on their mortgage payments?

_________ Number of purchasers currently delinquent or in default

REFUSED...☐ 997
DON'T KNOW..☐ 998

50. Does your PHA's Voucher Homeownership Program allow purchasers to use adjustable rate mortgage financing?

- YES ....☐ 1
- NO **(SKIP TO Q51)**..☐ 2
- REFUSED **(SKIP TO Q51)**...☐ 7
- DON'T KNOW **(SKIP TO Q51)**...☐ 8

50a. **[IF YES]** Please describe the terms of adjustable rate mortgage options allowed under your program.

____
____
____

51. Are the households that purchase homes under your Voucher Homeownership Program required to set aside funds for housing maintenance, major repairs, or replacements of major products and systems in their homes?
RECORD ONLY ONE RESPONSE.

- YES ....☐ 1
- NO **(SKIP TO Q52)**..☐ 2
- REFUSED **(SKIP TO Q52)**...☐ 7
- DON'T KNOW **(SKIP TO Q52)**...☐ 8

51a. **[IF YES]** Please explain how your PHA monitors compliance with the set-aside requirement.

____
____
____

52. *In the following section, the questions are about the homes that have been purchased under the Voucher Homeownership Program. When completing this section, please keep in mind that we are interested in ALL homes purchased since the start of the program.*

How many purchasers under your PHA's Voucher Homeownership Program have bought the same home that they were previously renting with a Housing Choice Voucher?
IF NONE, ENTER "0".

_________ Number of purchasers who bought in place

REFUSED..☐997
DON'T KNOW..☐998

53. How many purchasers under your PHA's Voucher Homeownership Program have bought homes that were owned or controlled by the PHA itself, rather than from third-party sellers?
IF NONE, ENTER "0".

_________ Number of purchasers of PHA-owned or PHA-controlled homes

REFUSED..☐997
DON'T KNOW..☐998

54. How many purchasers under your PHA's Voucher Homeownership Program have bought homes that were owned or controlled by a government agency or a nonprofit organization—other than the PHA?
IF NONE, ENTER "0".

_________ Number of purchasers who bought homes from government agency or nonprofits

REFUSED..☐997
DON'T KNOW..☐998

55. How many purchasers under your PHA's Voucher Homeownership Program have bought homes using the assistance of a real estate agent?
IF NONE, ENTER "0".

_________ Number of purchasers who used real estate agents

REFUSED... ☐997
DON'T KNOW... ☐998

56. What percentage of the homes bought under your PHA's Voucher Homeownership Program passed the mandatory Housing Quality Standards (HQS) inspection the ***first*** time?
IF NONE, ENTER "0".

_________ Percent passed the first HQS inspection

REFUSED... ☐997
DON'T KNOW... ☐998

57. Have any purchasers from your PHA's Voucher Homeownership Program "ported out" with their vouchers to buy houses located in another PHA's jurisdiction?

YES .... ☐1
NO.. ☐2
REFUSED... ☐7
DON'T KNOW... ☐8

58. Have any purchasers from other PHA Voucher Homeownership Programs "ported in" with their vouchers to buy houses located in your PHA's jurisdiction?

YES .... ☐1
NO.. ☐2
REFUSED... ☐7
DON'T KNOW... ☐8

59. We'd like to find out what the greatest barriers have been for you in implementing this program. Which of the following has presented the most significant barrier for your program?
RECORD ONLY ONE RESPONSE.

Difficulty Recruiting ....☐1
Finding Lenders ....☐2
Finding Counseling Partners ....☐3
High Housing Prices ....☐4
Lack of Downpayment ....☐5
Shortage of PHA Staff ....☐6
Other (please specify)______________________________ ....☐7

60. Finally, we have a last question about your program features.

Please briefly describe any features of your PHA's Voucher Homeownership Program that you consider to be special, unique or noteworthy.

____
____
____
____
____

Thank you very much for completing the survey.

DROPSHEET FOR VOUCHER HOMEOWNERSHIP STUDY
TELEPHONE SURVEY

PHA Identification Code: ____________

Date: ____________________________

REVIEW AFTER COMPLETING Q14.

PLEASE CONFIRM THE FOLLOWING NUMBERS:

FROM Q11:	__________	**HOUSEHOLDS ARE CURRENTLY ACTIVE IN THE PROGRAM**
FROM Q12:	__________	**HAVE COMPLETED PRE-PURCHASE COUNSELING**
FROM Q13a:	__________	**HAVE CLOSED ON A HOME**
FROM Q13b:	__________	**HAVE CLOSED WITH A VOUCHER SUBSIDY**
FROM Q13c:	__________	**HAVE CLOSED WITHOUT A VOUCHER SUBSIDY**
FROM Q14:	__________	**HAVE CLOSED AND ARE STILL RECEIVING A VOUCHER SUBSIDY**

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